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Aurora Venezuela Report: Secondary Tariffs and Their Discontents
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The Tearsheet

- Since the Trump administration announced the termination of Chevron's license on February 26, the relationship between the U.S. and Venezuela has experienced fluctuations.
- Deportation flights were unilaterally suspended and subsequently resumed by Maduro, while the U.S. government opened an alternative deportation channel under the 1789 Alien Enemies Act, prompting domestic and international criticism.
- Chevron's wind-down period was extended from April 4 to May 27—in either a necessary concession to the myriad technical and legal challenges involved in halting Venezuelan operations, or the first step in a drawn-out volte face.
- Although repatriation flights have resumed, the Trump administration has simultaneously expanded economic sanctions on Venezuela by imposing secondary tariffs on countries importing Venezuelan oil. This move complements existing secondary sanctions and signals an increasingly restrictive approach aimed at impairing Venezuela's oil exports.
- If the new oil policies are fully enacted, Venezuela's oil sector will face a regulatory environment even harsher than in 2019, during the peak of the maximum-pressure campaign. However, we anticipate implementation will proceed gradually, influenced by the specific objectives driving the new policy measures.

April 2	The Sec. of State could impose secondary tariffs
May 9	General License 80, authorizing oil contractors to operate, expires
May 25	Scheduled regional and parliamentary elections in Venezuela
May 27	Expiration of Chevron's new wind-down period

1. Schrödinger's Repatriation Flights

- Aurora explained that on March 8, following the announcement of Chevron´s license termination (GL41), Maduro declared a unilateral halt to repatriation flights as a retaliatory measure.
- Considering the Trump administration's reaction to a similar measure announced by President Petro in Colombia, Maduro's move was bold and risky.
- The tension did not last long. On March 13, envoy Grenell announced that Maduro agreed to resume the flights. This announcement could indicate the existence of a communication channel that, eventually, could improve U.S.-Venezuela relations. At the same time, it was consistent with Maduro's political fragility and reticence to engage in an open confrontation with Trump.
- The calm period did not last long, either. Trump´s next move was even bolder. On March 15, an executive order applied the 1789 Alien Enemies Act to justify the expedited detention and deportation of Venezuelan irregular migrants deemed members

of the Tren de Aragua (TdA). Based on this order, on March 16, 238 Venezuelans were deported to El Salvador.

- Maduro raised discrete objections, including a legal action before El Salvador´s Supreme Court. The situation within the democratic opposition was more complex. While María Corina Machado´s team adopted an institutional position, opposition factions not aligned with Machado -such as the former governor Henrique Capriles- adopted a more confrontational stance. In short, while Maduro´s elites remained united, the opposition factions were divided.
- On March 18, Secretary Rubio entered into the dispute, treating Venezuela with "new, severe, and escalating sanctions" if Venezuela did not accept repatriation flights. Rubio´s intervention demonstrated that the decision-making process was not concentrated in envoy Grenell.
- Rubio´s post increased tension, which again relaxed on March 22, when Maduro ratified that repatriation flights would resume. As Aurora reported, the open channel on repatriation flights and the absence of any wind-down in oil operations increased the expectation that the termination of Chevron´s licenses could be reverted.
- However, we did not rule out that the wind-down period could be extended in response to Chevron providing technical justifications related to asset protection or personnel security.
- On March 24, a new repatriation flight with 199 migrants landed in Venezuela. The resumption of the flights brought some calm as Maduro fulfilled Rubio´s demands.
- Once again, the calm was short-lived. On the morning of March 25, President Trump announced the imposition of "secondary tariffs" on Venezuela. This new economic sanction tool reduced the expectations of any extension of the wind-down period. And yet, that day GL41A was reformed by GL41B, which extended the wind-down period until May 27.
- GL41B does not introduce any change except for the extension of the wind-down period. We could expect GL80, which authorized oil contractors to operate in Venezuela until May 9, to be renewed.
- The extension of the wind-down period raised the hope that the "secondary tariffs" could be a bluff.
- This optimism later vanished as, on the 25^{th}, a new executive order was approved, defining the framework for applying secondary sanctions.
- The ups and downs result in uncertainty surrounding U.S. policy toward Venezuela, with potential signs of improvement and contradictions.
- Two factors could explain this policy roller coaster. First, the decision-making process could switch from Grenell to Rubio, meaning a less pragmatic approach and a more confrontational stance. The second factor is that U.S. policy towards Venezuela seeks different objectives, not necessarily aimed at promoting a democratic transition.
- The Trump I administration had a single goal: support the Interim Government and pressure for a democratic transition. The Trump II administration seeks other objectives, including addressing migration concerns, tackling the risks posed by the TdA, and containing China´s expansion in the Western Hemisphere.

- Depending on the specific goal, the policies may vary. Secondary tariffs could serve as economic retaliation tools against China, rather than targeting Maduro. The March 15 proclamation might address domestic demands for a strict migration policy, rather than responding to Maduro's uncooperative stance, which, on the contrary, has avoided any involvement escalation.

2. Helter Skelter for Venezuelan Oil Exports

- The March 24 executive order, which imposes tariffs on countries importing Venezuelan oil, can be summarized as follows:
  a) Secondary tariffs which build upon sanctions adopted during the Trump administration's first term. These sanctions remain in effect because the actions and policies of the Maduro regime continue to pose an "unusual and extraordinary threat to the national security and foreign policy of the United States."
  b) These secondary tariffs complement the secondary sanctions previously imposed on Rosneft in 2020.
- Key points of the new sanction regime include:
  a) Justification based on the alleged invasion by the TdA, as stated in the March 15 proclamation. Additionally, similar to measures implemented in 2019, the order references the ongoing economic, political, and democratic backsliding in Venezuela.
  b) Granting the Department of State the authority to impose 25% tariffs on all goods imported into the U.S. from any country importing Venezuelan oil, either directly or indirectly through third parties, effective starting April 2.
  c) The Department of Commerce is responsible for determining when a country imports Venezuelan crude. Notably, this tariff applies exclusively to oil—not natural gas.
  d) Once enacted, the tariff will remain in place for one year after the targeted country stops importing Venezuelan oil, though the Department of Commerce can opt for a shorter duration.
  e) Section 3(c) stipulates that any executive decision "inconsistent with the direction in this order is hereby terminated, suspended, or modified to the extent necessary to give full effect to this order." Consequently, existing sanction policies will be adjusted accordingly.
- The executive order does not clarify whether the tariff will apply to countries importing Venezuelan oil based on individual licenses or comfort letters, such as those currently held by Maurel & Prom (France), Repsol (Spain), and Reliance (India).
- Secretary Rubio will determine the precise scope of these secondary tariffs. On March 24, Rubio emphasized that the U.S. would not tolerate "third countries" exporting Venezuelan oil. Thus, under Section 3(c), the executive order likely intends to revoke any licenses or letters permitting non-U.S. companies to export Venezuelan oil.
- China appears to be the primary target of the executive order and is the only country explicitly mentioned in Section 3(d). Until now, the U.S. has tolerated Venezuelan oil exports to China. However, as part of the broader U.S.-China trade tensions, this order may impose an additional 25% tariff if Chinese companies continue purchasing

Venezuelan oil. It's worth noting that a portion of these exports could potentially offset bilateral debt owed by Venezuela to China, although recent repayments have been relatively negligible.

Estimated Breakdown of Venezuelan Oil Export Destinations

(Pre Secondary Sanctions Announcement)

China	500 mbpd
U.S.A.	250 mbpd
Spain	70 mbpd
India	70 mbpd
Cuba	30-60 mbpd

Source: Aurora Analysis

- The new executive order is not necessarily inconsistent with the extension of GL41B. Secretary Rubio's statement specifically refers to "third countries," not the U.S. itself. Indeed, one proposed policy on Venezuelan oil explicitly aims to create a U.S. monopoly in which only American companies would be permitted to produce and export oil to the U.S., effectively barring non-U.S. firms. Secondary tariffs could serve as a mechanism to implement this strategy.
- However, there is no indication that the U.S. will reverse its decision to terminate GL41. Our **base-case scenario** remains that Chevron will be required to wind down its Venezuelan operations under conditions designed to protect its investments and personnel.
- Our **second most likely scenario** is that GL41B could be amended to resemble GL8F, allowing Chevron to remain as a minority shareholder in joint ventures but without direct operational involvement. Even under this scenario, Chevron would cease to operate under a productive participative contract (CPP).
- Secondary tariffs directly address one of the main criticisms surrounding the termination of GL41—that Chevron would be quickly replaced by companies from China and other countries.
- If fully enforced, secondary sanctions could significantly deter formal oil exports to China and India, driving oil sales toward informal channels characterized by opacity, inefficiency, and significant market discounts. Additionally, as reported, Venezuelan oil production could collapse by approximately **80 to 130 kb/d** over the coming months if general and individual licenses to Chevron, Maurel & Prom, and Repsol are terminated.
- The combined impact of terminating GL41 and individual licenses, along with implementing comprehensive secondary tariffs, will create a framework stricter than the one established in 2019. Venezuela would no longer face merely a revival of the "maximum pressure" strategy but a more restrictive and comprehensive embargo environment, significantly impacting its oil sector.
- Although U.S. policies are challenging to predict, as noted previously, the most probable scenario is a gradual introduction of secondary tariffs, beginning with China. By May 27, the U.S. is expected to redefine oil sanction regulations, likely resulting in terminating individual licenses granted to Maurel & Prom and Repsol under conditions similar to those of GL41B.

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