

RUSSIA'S CONUNDRUM: PLAYING OUT ITS NEW ROLE IN VENEZUELA WHILE MAINTAINING A FUTURE IMPRINT ON CUBAN DEVELOPMENT

Vadim Grishin

IS RUSSIA'S SUPPORT OF MADURO A RETURN TO THE PAST?

For many Western observers and politicians, Russian participation in current Venezuelan events came as a surprise. With the crisis there deepening, Russia has become increasingly involved in defending a Maduro regime fragmenting at the seams and vulnerable on all sides. Why has this happened, and what does the Kremlin hope to achieve through such a policy?

In explaining this phenomenon, some analysts claim it is a way for Moscow to restore its status as a great power by “demonstrating ability to influence issues in every corner of the globe and frustrating efforts to establish democracy in Venezuela”, undermining in the process an international order based on the rule of law.¹ Others see the real guiding principle of Russian involvement as an effort to support the emergence of a multipolar world that seeks political advantage more than economic opportunities.² Some observers have argued that it is the Kremlin's desire to troll the U.S. and serve as its spoiler, imitating and mirroring West-

ern behavior toward Ukraine. Moscow's logic is straightforward: with the West so active in Russia's backyard, in its “near abroad” zone, then why shouldn't the Kremlin help revive anti-American regimes in the Caribbean basin, the U.S. backyard, considering that the U.S. is not the only power in the Western hemisphere.³ Some authors label the Russian approach to Caracas as an old fashion policy in fresh wrapping: a continuation of previous Russian strategies, or even the renaissance of Soviet-type hegemony, signaling the risk of the recurrence of the Cuban missile crisis of the 1960s.⁴

There is a tectonic split between analysts who consider the economic factor in Moscow's relations with Caracas as significant, and those who discard the commercial component as a mathematical error that warps the geopolitical aspects of bilateral ties. There are also cautious voices who insist that few, if any, similarities exist in Russia's current behavior vis-a-vis Venezuela with its conduct vis-a-vis Syria and Ukraine, except for the fact that in these hot spots

1. Herbst, John and Jason Marczak (2019). “Russia's intervention in Venezuela: What's at stake?” Atlantic Council Report, September 12, 2019. Washington, D.C.: Atlantic Council.

2. Valley, Taylor (2019). “Why Venezuela Needs Russia.” *The National Interest*, June 20, 2019; <https://nationalinterest.org/print/feature/why-venezuela-needs-russia-63472>

3. Rouvinski, Vladimir (2019). “Russian-Venezuelan Relations at a Crossroads”, Wilson Center Report, February 2019. Washington, D.C.: Wilson Center; https://www.wilsoncenter.org/sites/default/files/russia-venezuela_report_rouvinski_final.pdf

4. Gurganus, Julia (2018). “Russia: Playing a Geopolitical Game in Latin America.” Washington, D.C.: Carnegie Endowment for International Peace; <https://primerinforme.com/index.php/2019/08/02/crisis-de-los-misiles-podria-repetirse-si-eeuu-bloquea-venezuela/>

the Kremlin appears to have forced bilateral dialogue with the U.S.

In several instances, political scientists have assumed that official Russian documents reflect literally the country's international objectives. Such an assumption seems unwarranted, however, because it ignores the well-known fact that Russian foreign policy doctrine often lags far behind actual implementations. There is a very short paragraph on Latin America in Moscow's latest Foreign Policy Concept that places the region at the bottom of Russia's regional priorities on a level with Sub-Saharan Africa.⁵ Does this mean that "Moscow has few if any meaningful security interests in Venezuela", as some policy experts have concluded?⁶ Such an idea appears unnecessarily simple, especially if we consider the recent, intense contacts of top Russian officials with the Maduro regime.

Several propagandistically flavored clichés dominate the Russian literature on the Venezuelan crisis:

- Moscow makes an effort to prevent Venezuela from developing "the color revolutions" that occurred in Georgia and Ukraine;
- Putin really wants to repeat a successful Syrian operation to force the hand of the West again, and make it sit at a negotiating table to acknowledge Russia as a global player;
- Efficient Soviet playbooks from the past are used by Putin's team in Latin America against the United States, although these policies don't define the entire Moscow strategy toward Caracas;
- Putin does not exclude the possibility of bartering with Washington under certain circumstances and giving up Venezuela for the right price ("symmetric approach");

- Russia believes that the current risk of U.S. military operations in Venezuela is not high, but the regime in Caracas should be ready to deter a military intervention, and the Venezuelan army has to demonstrate its public allegiance to Maduro;
- Moscow has cautiously managed visits of its military advisers to Venezuela to avoid misunderstanding and unnecessary confrontation.⁷

POLITICAL ENGAGEMENT

Russia's involvement in the Venezuelan crisis has not been completely unexpected. Starting in the early 2000s, close relations between Moscow and Caracas were initiated. Official documents define Russian-Venezuelan cooperation as "strategic by nature and based on a solid foundation of coincidence of positions on the fundamental issues of the emerging polycentric world order."⁸

It is evident that geopolitical and geo-economic components have been a driving force of bilateral interaction since the first meeting of Russian President Putin and President Hugo Chávez on the sideline of the 55th Session of the UN General Assembly in 2000. Diverse previous official contacts in the 1990s did not yield significant results. Despite the Treaty of Friendship and Cooperation between Russia and Venezuela signed in May 1996, bilateral relations stagnated because the situation *in both countries* remained very dynamic and uncertain. When Putin and Chávez met in New York, however, their national political leadership was on the rise.

Paradoxically, despite having completely different life experiences, professional trajectories, as well as ideological platforms, they were compatible with each other and the chemistry of their personal relationship opened space for rapid development of bilateral co-

5. http://www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptlCk6BZ29/content/id/2542248

6. Saunders, Paul (2019). "Leveraging Venezuela: How Russia Sees Its Interests in the U.S. Backyard." *Russia Matters*, June 03, 2019. Cambridge: Harvard Kennedy School.

7. Astákhov, Evgueni (2019). "Lecciones de la crisis Venezolana." *Iberoamérica*, No.2, 2019. Moscú: ILA, pp. 84–103; Alekseenko, Oleg and Andrey. N. Pyatakov (2019). "Venezuela: the crisis test." *Iberoamérica*, No.2, 2019. Moscú, ILA, pp. 57–83; Frolov, Vladimir (2019). "Putin Is Ready to Give Up Venezuela for the Right Price." *The Moscow Times*, May 5, 2019; Timofeev, Ivan (2019). "Putin-Trump Meeting in Osaka: A Course Towards Stabilization," 01.07.2019, http://valdaiclub.com/a/highlights/putin-trump-meeting-in-osaka/?sphrase_id=1021912

8. https://venezuela.mid.ru/es_ES/resena-de-relaciones-ruso-venezolanas

operation based on geopolitics, guns and oil. Guided by the proposition of a multipolar world and desiring to strike a balance in its international affairs, Caracas hoped to validate economic arrangements with Russia, China, Cuba and Iran.⁹ The Kremlin promoted petroleum contracts and arms deals, brought Russian investments into Venezuela's oil and gas sector, and supplied agricultural products. In response, Caracas remained a faithful ally of Russia. Top-level political contacts with the regime of the so-called Bolivarian revolution became an integral part of the Russian international agenda. Chávez himself traveled to Russia nine times between 2001 and 2013.¹⁰ Both Medvedev (in 2008, during his tenure as president) and Putin (in 2010) visited Caracas. Following Chávez's death in 2013, they established personal relations with Maduro, and received him as visitor in Moscow 6 times, most recently in September 25, 2019.¹¹ Also, since the mid-2000s, important channels of communication have been set up by a Russian political heavyweight and close Putin associate Igor Sechin, who has visited Caracas almost twice yearly—as Deputy Prime Minister, and as head of the Russian state-owned oil company Rosneft.¹²

AN OIL AND GOLD CURSE

Close political ties facilitated the execution of ambitious energy projects that have become a core part of Russian-Venezuelan relations. Rosneft, working with PDVSA, Venezuela's state oil and gas company, has carried out five oil exploration projects in Venezuela, extracting 61.6 million barrels of oil in 2018. These projects have been implemented by joint ventures

Petrovictoria (40% Russian share), Petroperija (40%), Petromiranda (32%), Boqueron (26.67%), and Petromonagas (16.67%). The total proven oil reserves in these projects are estimated to be 20.5 billion tons.¹³ Rosneft stakes take the form of loans to PDVSA. In order to facilitate financial flows, the two governments use the Russian commercial bank Evrofinance Mosnarbank, currently under U.S. sanctions for helping PDVSA funnel revenue from oil sales and financing Venezuela's cryptocurrency Petro offering.¹⁴ The Venezuelan National Development Fund (Fonden) holds a 49.99% stake in the Bank. In 2011, Rosneft granted Caracas a loan in the amount of \$4.1 billion USD and created an oil service joint venture, Perforosven, in which Rosneft holds a 51% share and PDVSA 49%.

After 2014, several long-term export contracts were signed between Rosneft and PDVSA to supply oil and oil products in exchange loan payments that helped PDVSA meet some of its financial commitments. In 2016 a controversial \$1.5 billion loan was provided for the supply of over 1.6 million tons of oil and 7.5 million tons of oil products over the next 5 years; it was secured with a 49.9% stake in Citgo, a U.S. energy production and distribution company that operates in 19 U.S. states using an extensive network of pipelines, 48 terminals and three refineries. Liens are being contested in a U.S. court, and Rosneft, under U.S. pressure, de-facto swapped its interests for oilfield stakes and a fuel supply deal.¹⁵ Nevertheless, de-jure it continues to claim 49.9% of Citgo shares in the event of Citgo's default and ac-

9. Tinker Salas, Miguel (2015). *Venezuela: What Everyone Needs to Know*. New York: Oxford University Press, p.142.

10. Chávez made official visits to Russia in May 2001, November 2004, and October 2010, and work visits in October 2001, July 2006, June 2007, July and September 2008, and September 2009.

11. Berwick, Angus (2019). "Venezuela's Maduro says lawmakers will return to congress on Tuesday", Reuters, September 23, 2019; <https://www.yahoo.com/news/venezuelas-maduro-says-lawmakers-return-235236333>

12. Hess, Maximilian (2019). *Sechin's Folly*. Riddle, January 29, 2019, <https://www.ridl.io/en/sechin-s-folly/>

13. <https://www.rosneft.ru/business/Upstream/Exploration/razvitieproektovvenesujele/>

14. Ribando Seelke, Clare (2019). "Venezuela: Overview of U.S. Sanctions," Congressional Research Service, Updated October 16, 2019. Washington, D.C.: CRS

15. Ulmer, Alexandra (2018). "U.S. investors seek to acquire Russia's Rosneft lien in Citgo." Reuter Business News, February 26, 2018, <https://www.reuters.com/article/us-usa-oil-citgo-exclusive/exclusive-u-s-investors-seek-to-acquire-russias-rosneft-lien-in-citgo-id-USKCN1GA2J4>; Diana Villers Negro Ponte (2018). "Russian Interests in Venezuela: A New Cold War?", *Americas Quarterly*, June 19 2019; <https://www.americasquarterly.org/content/russian-interests-venezuela-new-cold-war>

tion that has already generates strong protests on the part of American lawmakers, PDVSA bondholders and other potential claimants. Citgo, Venezuela's largest and most vulnerable overseas asset has also become a battlefield between the Guaidó-led opposition and international creditors (defined by Guaidó as Maduro bondholders). Venezuela's Congressional leader Juan Guaidó, recognized by the United States and 50 other countries as interim president, took control of Citgo in early 2019 and appointed a board of directors, but under the existing sanctions regime, holders of PDVSA 2020 bonds would be the first in line to receive 50.1% of Citgo's shares in case of its bankruptcy. Thus, the company faces a takeover of creditors if Guaidó does not make a late October \$913 million bond payment or succeed in persuading the White House to issue an Executive Order protecting it from creditors.¹⁶

In August 2017, Rosneft provided an advance payment of \$6 billion for oil supplies. Later in November 2017, the Russian government agreed to refinance \$3.15 billion in intergovernmental loans for Venezuelan arms sales approving minimal repayments over 6 years, an extension that has given Caracas additional breathing room as it manages the consequences of defaulting on its sovereign debt.¹⁷

In March 2018, Maduro ordered the European headquarters of state oil company PDVSA to relocate from Portugal to Russia, as a measure for securing the country's assets in light of growing Western pressures.¹⁸ Nevertheless, the economics of the relationship between Rosneft and PDVSA continued to be under stress and complicated as Venezuela struggled to pay its debts amid a sharp drop in oil output.

Sechin had to fly to Caracas in November 2018 to press Maduro to keep up the restructured payments. According to recent data, PDVSA's debt to Rosneft decreased from \$4.6 billion in 2017 to \$2.3 billion in 2018, and \$1.1 billion in the first half of 2019.¹⁹ It's likely that Rosneft could be completely paid off by the end of the year.²⁰ In December 2018, a Rosneft subsidiary won licenses to develop two offshore Venezuelan gas fields with total reserves of approximately 180 billion cubic meters (bcm) of gas. Maximum annual production is expected to reach 6.5 bcm in the first 15 years. Blueprints have been prepared as well to build an LNG plant and port terminal for export.²¹

Moscow has become Venezuela's lender of last resort, converting debts into equity and other assets, or securing loans by using as collateral future deliveries of commodities without a clearly understanding as to whether the post-Mauro authorities will honor these agreements or will provide guarantees of Rosneft's ownership of the oil and gas fields it has been operating in Venezuela. Russian commercial interests have been challenged by geopolitical goals, and the balance between business interests and politics has remained so fragile that a majority of Russian private firms and banks have withdrawn from the Venezuelan market, leaving the Russian oil state monopoly almost alone. This mix of high-risk tolerance with a biased risk assessment typical of Rosneft may significantly increase the cost for Russia of regime change in Venezuela.²²

Another important feature of Rosneft's business in Venezuela is that Russia's oil monopoly and its CEO, Mr. Sechin, have been under U.S. sanctions since

16. <https://www.reuters.com/article/us-venezuela-oil-citgo/venezuelas-guaido-needs-us-support-vs-citgo-bondholders-to-retain-control-citgo-chair-idUSKBN1WH1KS>

17. <https://tass.ru/ekonomika/4470080>

18. <https://www.teletrader.com/pdvsatoopenofficeinmoscowinapril/news/details/47162963?ts=1569781829168>

19. <https://www.interfax.ru/business/673500>

20. Krauss, Clifford (2019). "It's the Only Way to Be Paid: A Struggle for Citgo, Venezuela's U.S. Oil Company", *New York Times*, October 17, 2019.

21. <https://www.bbc.com/news/business-42388488>

22. "Cuba won't negotiate on Venezuela, but Russia might, senior U.S. official says"; <https://www.miamiherald.com/news/nation-world/world/americas/venezuela/article235423587.html#storylink=cpy>

2015. Broad U.S. sanctions also began to be imposed on the Venezuelan oil sector since January 2019. Initial concerns on the U.S. side that an embargo on the supply of Venezuelan oil to the United States would negatively affect refineries in southern U.S. states tied to heavy Venezuelan oil, were dismissed at the end of 2018. Accordingly, the Maduro regime, using Rosneft's expertise, has intensified the search for alternative markets and routes of circumventing U.S. sanctions in order to sell its crude. Rosneft has assisted in the transportation of Venezuelan oil to the Vadinar refinery in India, where it owns a 49.13% share. This refinery has the capacity of processing 20 million tons per year of heavy and super-heavy grades of oil (it is the second largest refinery by volume in India), and producing high-quality fuel, with access to premium markets of the Asia-Pacific and South-East Asia regions.²³

Since the summer of 2019, a Panamanian affiliate of Rosneft has taken control over Venezuela's oil international marketing and become the country's largest oil trader (40% of all country's oil exports in July and over 66% in August 2019).²⁴ Rosneft has continued selling Venezuelan crude to two main destinations: China and India.²⁵ Vessels bound for China accounted for 32% of September 2019 exports, or 270,000 bpd.²⁶ At the same time, President Trump's August 5, 2019 Executive Order on blocking property of the government of Venezuela and authorizing sanctions against U.S. citizens and other third-party actors engaged in transactions for the conduct of business with the Venezuelan state and its associated entities, has resulted in the reduction of China's National Pe-

troleum Company's (CNPC) crude purchases from Venezuela and cancelled CNPC loading plans for an estimated five million barrels.²⁷ Moscow has moved in to fill the void. Simultaneously, Russia's oil monopoly has boosted direct oil exports to the United States, substituting the heavy Venezuelan oil (which has been under an almost complete embargo in the US market since April 28, 2019) with Russian oil blend Urals. The Treasury Department Office of Foreign Assets Control (OFAC) has granted a waiver to several U.S. companies (including Chevron, Halliburton, Schlumberger, Baker Hughes and Weatherford International) enabling them to continue their activities in Venezuela through January 25, 2020.²⁸ Rosneft is closely monitoring whether that authorization will be extended, as it considers to further expanding its presence in the oil sector. In September 2019 Moscow promised Maduro over \$5 billion new investments for increasing oil production through joint ventures with Rosneft.

A similar situation appears to be developing in the Venezuelan gold mining industry (Venezuela had an internal gold production in 2018 of 8.65 tons), which came under severe U.S. sanctions in January 2019. Russia is looking to invest up to \$1 billion in Venezuela's mining projects, with a focus on gold and diamonds.²⁹

In addition to oil production and gold extraction, both sides have focused on Caracas' gold reserves as an instrument to mitigate U.S. financial sanctions. According to mass media, 30 tons of Venezuelan gold (30% of national gold holdings, worth approximately \$1.2 billion were reportedly moved to Rus-

23. https://www.rosneft.com/business/Downstream/Neftepererabotka/Nayara_Energy_Limited/

24. Krauss, Clifford (2019). "It's the Only Way to Be Paid: A Struggle for Citgo, Venezuela's U.S. Oil Company", *New York Times*, October 17, 2019

25. Yagova, Olga and Marianna Parraga (2019). "Rosneft becomes top Venezuelan oil trader helping offset U.S. pressure." *Reuters*, August 22, 2019; <https://www.reuters.com/article/us-russia-venezuela-oil/rosneft-becomes-top-venezuelan-oil-trader-helping-offset-u-s-pressure-idUSKCN1VC1PF>

26. Parraga, Marianna (2019). "Venezuelan oil exports rise, but not enough to drain stocks." *Reuters*, October 2, 2019; <https://www.reuters.com/article/us-venezuela-oil-exports/venezuelan-oil-exports-rise-but-not-enough-to-drain-stocks-idUSKBN1WH15N>

27. Vaz, Ricardo (2019). "Venezuela Oil Production Continues Decline as China Cancels More Shipments", *Venezuelanalysis.com*, September 12, 2019.

28. https://www.treasury.gov/resource-center/sanctions/Programs/Documents/venezuela_gl8d.pdf

29. <https://tass.ru/ekonomika/5881606>

sian storage facilities, although the Russian Central Bank called such reports untrue.³⁰ It is also unclear whether Russia assisted Maduro in transporting 7.4 tons of gold to Uganda's refineries and 10 tons to Turkey's.³¹

What is certain is that Moscow remains a prime supplier of wheat to Venezuela, pledging delivery of 600,000 tons at the end of 2019 and throughout 2020. Russia, the world's largest wheat exporter, had shipped wheat supplies to Venezuela in previous years, but as October 2019 there have been no such shipments thus far in 2019. Russia exported 254,000 tons of wheat to Venezuela in 2018 and 223,500 tons in 2017.³² Another driving force in the relations between the two countries is the persistence of military and technical cooperation. Moscow continues to be a loyal Maduro regime partner in the maintenance and repair of multiple Russian weapon systems.

MILITARY PILLAR: A SELF-GENERATED ARMS RACE

Venezuela's modern war machine was created by Hugo Chávez. *El Comandante* was obsessed with the idea of building up his military, not just because he himself had been an officer in an elite paratrooper brigade. He wanted to create an alternative regional power center and become its leader. In addition, he knew, not only by hearsay, how discontent in the army could rebound on national political life and even undermine presidential power.

Having been a conspirator in 1992, and then, ten years later, as president of Venezuela, he survived a serious military coup attempt in 2002, including being ousted from office for 47 hours. The attempted coup became a turning point in U.S.-Venezuela relations, which cooled sharply after 2002. During this period Chávez ended his honeymoon with the Clin-

ton administration. President George W. Bush's Latin American team, composed of influential former Cold War warriors, brought distrust and suspicion of all leftist regimes in the region, particularly that of Chávez.³³ The idea of an external invasion threat was cultivated by Chávez's Cuban friend, Fidel Castro, who reached an agreement with Chávez to send to Venezuela medical doctors and thousands of military advisers in exchange for cheap oil supplies. These advisers were there supposedly to minimize the risks of internal military turmoil.

Seeing an opportunity, Russia partnered with Chávez to create a modern defense system in Venezuela, after Moscow's relations with Washington began to deteriorate following the outbreak of the second Chechen war, the continuing expansion of NATO and the color revolutions in several former Soviet republics. By the early 2000s, Venezuela was flush with revenue as a result of soaring oil prices that allowed Chávez to dream of buttressing his military presence in the Caribbean and launching an arms race.

In 2002, Chávez and his associated controlled a significant portion Venezuela's oil revenues due to PDVSA's complete subordination to the government. As a result, quality of management dropped dramatically, but growing oil prices permitted the amassing of resources and their allocation to military expenditures, international subsidies and domestic social programs. The government also reviewed relations with foreign companies, and in 2007 assets of Exxon-Mobil and ConocoPhillips were nationalized and transferred to PDVSA. Both companies left Venezuela and filed lawsuits arguing de-facto expropriation. Some assets of other foreign companies, including Total, Chevron, Statoil and BP, were also acquired by PDVSA at a significant discount that permitted

30. <https://meduza.io/en/feature/2019/01/31/novaya-gazeta-reports-russia-helped-venezuela-sell-gold-for-maduro-s-sake-russia-s-central-bank-denies-it>; <https://www.reuters.com/article/us-venezuela-politics-russia-jet-cenbank/russian-central-bank-calls-reports-of-venezuelan-gold-in-russia-untrue-idUSKCN1PP1O>.

31. Meléndez, Lorena and Lisseth Boon (2019). "How Venezuela's Stolen Gold Ended Up in Turkey, Uganda and Beyond," *InSight Crime*, March 21, 2019; <https://www.insightcrime.org/news/analysis/venezuelas-stolen-gold-ended-turkey-uganda-beyond/>

32. <https://ria.ru/20190925/1559100130.html>

33. Carrol, Rory (2013). *Comandante: Hugo Chávez's Venezuela*. New York: Penguin Books, 2013, p. 71; "Venezuela coup linked to Bush team." *The Guardian*, 21.04.2002.

the government to gain a majority stake in the main crude projects of the Orinoco basin.³⁴

A direct correlation was apparent at the time between the volume of military expenditures (and the foreign arms purchases) with the fluctuation of oil prices. When the oil price in the international market fell below \$30 per barrel, Venezuela's military spending did not exceed \$1–2 billion per year (1999–2002), but when the price of oil exceeded the mentioned threshold, the country's military spending skyrocketed, reaching a record \$5.66 billion in 2008. During the global financial crisis of around 2007, Venezuela's military expenditures declined by 30%. However, when oil price increased again in 2010–2011, national military spending reached new heights (\$6.2 billion in 2013).³⁵

The process of substituting foreign military suppliers was radical and rather painful: weaponry from Russia and China replaced Italian, American, French and British military industrial products. At this time another catalyst for Russian-Venezuelan military-technical cooperation was the imposition by the U.S. of an American embargo on arms supplies to Caracas in 2004. The United States not only stopped selling American equipment, but advised its allies not to do so as well. It is interesting to note, that besides Russia and China, Belarus also became a competitor for weapons sales in certain segments of the Venezuela military market.

Between 2001 and 2018, Moscow sold to Venezuela about \$11.5 billion worth of arms. From 2005 to 2013, Russia accounted for almost three quarters of Venezuela's foreign military imports.³⁶ Russian weapons, supplied on credit, included assault rifles AK-103, jet fighters, helicopters and tanks. Cara-

cas also received modern Russian anti-aircraft missile systems Antey-2500, Buk-M2E, Pechora-2M and ZU-23, as well as 36 Sukhoi Su-30MK multi-role fighters. Thus, Venezuela created one of the most powerful air defense systems in Latin America and increased significantly its ground force capabilities. The army put into service 50 military Mi-35 and Mi-17 helicopters, more than 90 T-72S and T72-M1M tanks, 120 BMP-3M, 110 BTR-80A, dozens of self-propelled guns "Msta-S", multiple launch rocket systems "Smerch" and "Grad", as well as self-propelled and towed mortars.

Accordingly, the Venezuelan ground forces have likely become the most lethally equipped in the region. They have conducted joint military exercises with their main supplier, and Russian jets along with warships have made regular stopovers. Since 2008 Russian super-sonic bombers, capable of carrying nuclear weapons, have visited Venezuela three times.³⁷ Of late, however, Russian arms sales to Venezuela have fallen significantly (by 96%), replaced in 2014–2019 to a great extent by sales from China. In view of the severe economic, social and political crisis faced by Venezuela after the oil price crash in 2014, China remained the only exporter to continue delivering large-scale military supplies to Caracas.

In the post-Chávez period between 2013 and 2017, Venezuela's military spending fell by 71%, dropping to \$464 million USD.³⁸ Military-technical cooperation between China and Venezuela has been funded through long-term soft loans (with extreme high risks of non-return), and became part of Chinese direct military assistance. In 2014–2017 China delivered to Venezuela military transport, combat and training aircraft, armored vehicles and artillery systems. The

34. Weisbrot, M. and Sandoval L. (2007). "Update: The Venezuelan Economy in the Chávez Years." Washington, D.C.: Center for Economic and Policy Research, 2007; http://cepr.net/documents/publications/venezuela_2007_07.pdf

35. Alekseeva, T.A. and S.S. Goreslavsky, S.S. (2018). "Venezuela's Defense Policy: Military-Technical Cooperation, Oil Factor and Geopolitical Dividends." Moscow: Vestnik RUDN. International Relations, 18 (3), 497–516.

36. SIPRI Arms Transfers Database, Stockholm: Stockholm International research Peace Institute. <https://www.sipri.org/databases/armstransfers>.

37. К.Макиенко. «Как Россия продала России оружия на 11.5 млрд. долл.» Профиль 13.02.2019; <https://profile.ru/military/kak-rossiya-prodala-venesuele-oruzhiya-na-11-5-milliarda-dollarov-67315/>

38. SIPRI Fact Sheet, April, 2019; https://reliefweb.int/sites/reliefweb.int/files/resources/fs_1904_milex_2018.pdf

value of these major Chinese military exports was about \$500 million.³⁹ Currently, the Venezuelan armed forces depend on Chinese armament and Chinese military assistance. At the same time, Venezuela provided 4% of oil imports to China through 2018, delivering 700,000 barrels per day, mostly at a preferential price of \$50 per barrel.

Caracas has also become the largest recipient of Chinese government loans, not only in Latin America, but globally. In July 2018, the China Development Bank approved a \$5 billion loan to PDVSA.⁴⁰ Since the 2000s, China has provided over \$60 billion in loans to Venezuela payable in oil supplies and several tens of billions more in direct investments. In the past ten years, China has become Venezuela's main source of external financing. We can assume such accumulated inertia and traces of Russian-Venezuelan and Chinese-Venezuelan military cooperation will be visible for many years ahead, regardless of the country's future foreign policy orientation. It is also likely that the self-generated Venezuelan arms race has already passed its peak. In the event of regime change and emergency actions are taken to restore the country's economy, a new foreign policy evaluation will have to be made and the need for new massive military buildups will probably disappear.

RUSSIAN FOREIGN POLICY MANEUVERS

From the early 2000s, Venezuela has found itself in the forefront of Russian foreign policy, enthusiastically backing all international Kremlin initiatives, while trying to create economic and political cooperation platforms in the Western Hemisphere (Union of South American Nations, Community Of Latin American and Caribbean Nations, and Bolivarian Alliance for the People of the Americas) as an alternative to those of Washington. Such an approach coincides with Moscow's concept of a polycentric world.

Adding to the geopolitical tide, Venezuela has become the only major country to recognize the independence of Abkhazia and South Ossetia after the Russian-Georgian War; Igor Sechin personally persuaded Hugo Chávez to do this and Russia paid generously for such support, providing a loan of \$1 billion for the supply of weapons.⁴¹ However, Chávez's successor, Maduro, has not recognized the new status of Crimea; he has limited himself to repeating accusations of U.S. and EU "double standards" over the Crimea referendum, using past events in Kosovo and the Falkland Islands as evidence.⁴²

Moscow has also made attempts to strengthen relations with member countries of the Bolivarian Alliance for the Peoples of Our America (ALBA), a left-wing bloc that includes Venezuela, Cuba, Bolivia, Ecuador, Nicaragua, Saint Vincent and the Grenadines, Antigua and Barbuda, and Dominica. Russia has drawn on its ties with these countries to promote an international agenda and receive political support, while prioritizing such hot issues as the conflicts in Syria and Ukraine. Having said that, we should also note that Moscow has focused its efforts on developing relations with major countries in Latin America since 2010, particularly Argentina and Brazil. In 2016 Brazil-Russia trade reached \$4.3 billion, and Russian state monopolies—Rosneft, Rosatom and Gazprom—have actively pursued projects in Brazil. Cooperation within the BRICS⁴³ framework has driven bilateral relations and reinforced Russian commitment to multipolarity.

Between 2007 and 2015, under the presidency of Cristina Fernández de Kirchner, close relations developed between Russia and Argentina, including in the area of nuclear energy. During this period Russian propaganda and country experts portrayed Latin America as a "fractured" continent, split across an

39. SIPRI Arms Transfers Database, op cit.

40. Slav, Irina (2018). "China Throws Venezuela's Oil Industry A \$5B Lifeline," July 04, 2018, oilprice.com; <https://oilprice.com/Energy/Crude-Oil/China-Throws-Venezuelas-Oil-Industry-A-5B-Lifeline.html>

41. Zygare, Mikhail (2016). *All the Kremlin's men: inside the court of Vladimir Putin*. New York: Public Affairs, 2016, p.179.

42. Мадуро: Кто не признает референдум в Крыму, использует "двойные стандарты." Российская газета, 19.03.2014; <https://rg.ru/2014/03/19/maduro-anons.html>.

43. BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

“East–West” or “Pacific–Atlantic” divide, and as an arena for the struggle of conservatives and neoliberals (Chile, Peru, Colombia, Mexico) vs. “progressive” socialist governments in the region. With the ebbing of the leftist movements, Russia modified its approach and is presently trying to pursue relations with Argentina and Brazil mostly devoid of a leftist political narrative. In the context of the crisis in Caracas, which Moscow perceives as Venezuela’s “Maidan”, Russia seems to be increasingly exploring “an anti-imperialist” rhetoric, supporting the left triple alliance (Venezuela-Cuba-Nicaragua) which it sees as the Achilles heel of the United States in the Caribbean.

RUSSIA AS INTEGRATOR OF RESILIENCE AND PROTECTOR OF THE STATUS QUO

One of the axioms of Russia’s foreign policy in the post-Crimea period can be formulated as follows: the whole is usually greater than the sum of its parts. In the case of Venezuela, it is obvious that China has invested much more in the country (over \$70 billion) and exported more military equipment since 2014 than Russia. Cuba has also remained Maduro’s most significant military-political partner, with thousands of Cuban military advisers integrated into the Venezuelan army. And India has purchased more Venezuelan oil than Moscow. Considering the involvement of these other actors, why would the Kremlin want to assume the role of regional integrator, wanting to preserve a failed regime in a country so far away from Russia and so near the U.S. coast?

While some answers lie on the surface, others remain hidden behind a thick veil of propaganda. The clues resemble a Russian nesting doll, containing several carefully crafted pieces one inside the others. One explanation is not enough. We can see some signs of nostalgia for the Soviet legacy, but the Kremlin is neither sentimental nor philanthropic in its current Latin American approach. There are significant economic and personal opportunities at play in the large

er framework through which Moscow is intentionally challenging Washington, and increasing the political stakes of its game. From the Kremlin’s point of view, playing is more important than winning. As Russia creates new policies, a renewed toolbox shapes Moscow’s regional strategy, which seeks to occupy the international arena vacuum left by Western powers, primarily the U.S., as it focuses mostly on its own internal political issues. When opportunity arises, the Kremlin happily plays against an established international liberal order, which is “unilateral”, “unfair”, and “ignores the interests of the majority”—that is why liberal values, according to Putin, are obsolete.⁴⁴

What is central to Russia’s policy towards Venezuela? First of all it is a new regional strategy, and not just a replica of old times or a mechanical mix of cold war and post-cold war recipes. Having limited resources, Moscow is trying to solve a group of parallel tasks using agile, unorthodox instruments. By and large, it is a continuation of policies that worked in Ukraine and Syria. Despite the differences in these situations, the main storyline remains the same—Russia fully engages in a political process during an acute phase of crisis, when it seems that not much can be done and the battle is almost lost. When a pro-western opposition came to power in Kiev, the Crimean operation was immediately launched with “little green men” “conquering” the peninsula.

Several years ago everyone in the international community was convinced that Assad’s days were numbered, but Russia intervened and he survived. Many had already written off Maduro, but he visited Moscow to sign new agreements on oil production and gold mining in October 2019 and got a lifeline. Russia and Venezuela are drafting a long-term cooperation plan for 2020–2030 and working on restructuring Caracas’ international debts.⁴⁵ This is reminiscent of the Chinese economic expansion strategy, where Beijing usually enters a new emerging market at a time of economic crisis, when other investors are frightened and seeking an exit route. But politically, China largely prefers to stay on the sidelines and not

44. <https://www.ft.com/content/878d2344-98f0-11e9-9573-ee5cbb98ed36>

45. <https://tass.com/world/1081651>

to be directly involved in domestic clashes with different interest groups, cherishing instead its “non-intervention” image and dealing with a variety of political forces across a large spectrum. Beijing refrains from direct confrontations with the U.S. in the Caribbean, having a bigger worry—an unresolved existential trade conflict with Washington. Chinese leaders have selected a much softer and balanced approach with Caracas, trying not to put all eggs in one basket (Maduro), while courting Venezuela’s opposition. Russia has also used back channels to make contact with Guaidó and other opposition leaders, but the Kremlin’s center of gravity has unquestionably shifted toward Maduro, who continues to be a strategic partner and “brother in arms”, struggling, as Moscow does, under western sanctions.

Cubans have been engaged in the recreation of the Venezuelan army, becoming an important element of the local military presence. Their mission reminds one of the roles played by “Bolshevik commissars” in the Red army, who supervised military personnel, organized political drills and eradicated disloyalty to the regime. Nevertheless, Havana does not own the modern weapons and military equipment that Moscow does. Technically and politically Cubans have remained in the realm of the past century. Cuba’s isolated, state owned and backward economy hasn’t permitted Havana to offer relevant expertise on economic and financial matters. Last, but not least, the main resource of Venezuela—oil—has been primarily seen from Havana as a form of consumption. Russia has immersed itself in the core in Venezuelan business—oil production, transportation, and processing. It has embraced a magic formula of macroeconomic stability, promising to address Caracas’ blue dream. In the process it has graciously shared its rich experience of resistance to Western liberal ideology and restrictive economic sanctions and provided military training and maintenance of military equipment, making neighboring countries think twice

about the potential cost of any military operation against the Maduro regime.

THE WHOLE IS GREATER THAN THE SUM OF ITS PARTS

There are eight main pillars in Russia’s policy towards Venezuela:

The first is geopolitical—Russia is looking to solidify its image as a world power, and in the case of Venezuela, would like to show that it is an important international actor, playing even in the underbelly of the United States, mirroring in that way the policy of the West towards the Russian “near abroad” mindset, particularly in regards to Ukraine.

The second is Russian-Venezuelan cooperation in the oil sector—a relationship that acquired even more geostrategic value when Moscow reached an agreement with the Organization of Petroleum Exporting Countries (OPEC), of which Venezuela is a founding member, to cut oil production. The Secretary of the Russian Security Council,⁴⁶ Nikolai Patrushev, stated on March 25, 2019 that U.S. actions towards Venezuela are the manifestation of a Washington policy that seeks to promote economic interests using unfair competition. He argued: “The U.S. strategic goal is to become the leader of world oil exports in the next few years, setting its own ‘rules’ and imposing its will over OPEC.”⁴⁷ Patrushev believes that the United States wants to process cheap Venezuelan oil for its refineries, and export expensive shale oil to Europe. In geo-economic terms by protecting the current regime in Caracas, Russia has strengthened its alliance with OPEC and preserved assets acquired under the Chávez-Maduro rule. Rosneft is now exporting to the U.S. the replacement for the heavy oil that used to come from Venezuela, but was banned under the U.S. embargo. No doubt the restoration of Venezuela’s oil industry under any scenario will be a long and extremely expensive process, with a price tag of at least \$50 billion, and for this reason

46. The Russian Security Council is equivalent to the American National Security Council, and the most important collective decision-making institution on Russian foreign policy.

47. <https://iz.ru/859393/izvestiia/rossiia-ne-sobiraetsia-sama-sebia-otkliuchat>

Rosneft is hoping to continue supplying U.S. demand for heavy oil well into the future.

Through the third pillar, Moscow is helping Venezuela to counter sanctions imposed by the U.S. with respect to the oil and gold mining industries, as well as in sensitive financial and banking sectors. Russia has assisted the country in finding alternative markets for the sale of oil and gold, and for transporting and processing these commodities in order to bypass U.S. sanctions. Russian IT and financial experts have also assisted Venezuela in the creation of the world's first official crypto currency, the Petro.

The fourth pillar is that Russia hopes to participate as mediator in any transition of political power that might happen in Venezuela. It has officially supported negotiations with varying political groups, including those associated with Guaidó. Putin summarized this point after meeting with Maduro at the Kremlin on September 25, 2019. He declared, “any refusal to have dialogue is irrational, harms the country, and only threatens the population's well-being.”⁴⁸

The fifth pillar relates to the remoteness and low level of public awareness of what is actually happening in Venezuela, which allows Russian propaganda to build the most self-serving patterns for “explaining” events in the region. While it is known that the unusually high inflation rate in the country (according to an IMF forecast, 10 million percent in 2019)⁴⁹ is due to monetary factors, as well as flagrant violations of elementary economic laws by authorities who have fully subordinated the central bank to government needs and used reserves as additional direct subsidies of consumption and production, in the process have further accelerated hyperinflation. Russian experts have capitalized on this by promoting conspiracy

theories, explaining inflationary pressures as negative influences from the U.S., which used Internet technology to “inject” hyperinflation to Venezuela. They have further alleged that the dolartoday portal,⁵⁰ which has operated from Miami since 2010, is a tool for such illicit activities.⁵¹

The sixth pillar concerns the Kremlin's intent to maintain an instrument for impacting the electoral process in the United States in 2020, clearly understanding that the stakes to finding a solution in Venezuela are very high for the Trump administration. The present situation there, with the country on the verge of collapse, can lead to entrapment and breakdown of governance that will only create more refugees and enrich gun smugglers and criminal cartels. Florida, as a swing state in U.S. elections with a large electorate that follows Venezuela issues, has high value in the upcoming presidential race.

The seventh pillar is that Moscow still has an expectation to bargain with the White House on the price of a possible withdrawal from Venezuela if the Maduro situation deteriorates further. At the same time, Russia does not want show that it is in a rush. Putin in a June 2019 *Financial Times* interview defined it in the following way: “We prefer to look at problems thoroughly from all possible angles and not to be in any hurry.”⁵²

The eighth is that Russian military and technical assistance, even in limited and covert forms, have prolonged—if not guaranteed—the survival of the regime. In Moscow's eyes, Maduro is not on the brink of being displaced at this time and the political situation in the country has stabilized.⁵³

FUTURE SCENARIOS: HISTORY IS BACK

The Kremlin is taking into account several considerations as it elaborates its Venezuela policy. The first is the most ambitious: to pacify the political

48. “Putin: Russia supports Venezuelan president's dialogue with opposition forces,” <https://tass.com/politics/1079750>

49. https://www.imf.org/external/datamapper/PCPIPCH@WEO/WEO_WORLD/VEN

50. <https://dolartoday.com/>

51. Alekséenko, Oleg and Andrey Pyatakov (2019). “Venezuela: Prueba Por La Crisis.” *Iberoamerica Journal*, Moscú, N 2, 2019, ?. 65.

52. “The Russian president on globalization, China, Trump and the end of the ‘liberal idea.’” *Financial Times*, June 27, 2019.

53. <https://tass.com/world/1080478>

opposition, stabilize the economy, and maintain Venezuela's connections with Cuba and other leftist regimes in the Caribbean basin and Central America, generating a sustainable "arc of instability" around the south-east coast of the U.S. Among other things, Russia has discussed the possibility of building a helicopter maintenance base in Venezuela.⁵⁴ President Putin has confirmed that Russian military specialists and instructors regularly visit the country. Only recently, he mentioned that a group of Russian advisers had left the country, but could return.⁵⁵ Many signs indicate that Moscow's support for the regime of Nicolás Maduro has been crucial. Despite the collapse of oil production to 650,000 barrels per day (see Chart 1) and the reduction of local refining capacity, Rosneft continues to do business with PDVSA. According to a report by the *Financial Times*, Russia's state-owned company has become the last major supplier of petrol to Venezuela.⁵⁶

As acknowledged by some high-ranking Russian officials, Moscow has been working to "normalize" the overall situation in Venezuela, providing economic, military and humanitarian assistance, and sending foodstuff and medicine as well.⁵⁷ Putin has stated that many things could have been done differently with regard to the Venezuelan economy. In November 2018 and February 2019, delegations of Russian officials visited Caracas and presented proposals and recommendations for stabilizing the economy, including five primary measures: (1) support the poorest segments of the population by introducing unconditional basic income for households and implementing more efficient policies to combat poverty; (2) stop the financing of budget deficits through emissions of currency (i.e., disable the printing presses); (3) carry out a tax reform that focuses on indirect

taxation, as was done in Russia; (4) increase oil production and diversify exports; and (5) continue to introduce the national crypto currency ("el Petro") in Venezuela's financial market. Russian officials have not approved, however, an idea for financing the modest bilateral trade, which is below \$100 million per year, using the crypto currency.⁵⁸ Above all, this general program, which advocates implementing good policies and abandoning bad ones, does not provide a workable mechanism for implementation. Implementation remains obscure, from a technical and political point of view, and sources of funding are not identified.

In this context, a forecast made by consulting firm AGPV (Asesores Económicos from Caracas) is of undeniable interest and provides food for thought in considering Venezuela's future (see Table 1). AGPV macroeconomic projections show that if the political and economic status quo is preserved, it will result in the continuation of a total social, economic and political disaster—with a lack of GDP growth, hyperinflation, galloping exchange rates, etc. Such a scenario, with the Maduro regime surviving, should be titled "Winners Take All." The main outcome of that scenario would prove a complete victory for the Kremlin and protect Russian geopolitical and geo-economic assets in full, as Moscow was able to do in Syria with Assad. As President Putin recently noted, "the Syrian settlement can become a model for resolving regional crises."⁵⁹

The second scenario (Long Transition) assumes that Moscow, participating directly or indirectly in Venezuela's future power transition—involving different groups of army officers and Chavistas—while aiming not to lose investment assets in the country (loans, stakes in joint ventures, oil and gas concessions), and assisting in the creation of a hybrid re-

54. <https://russian.rt.com/inotv/2016-11-01/ODG-Venesuelskaya-baza-Rossii-poka>

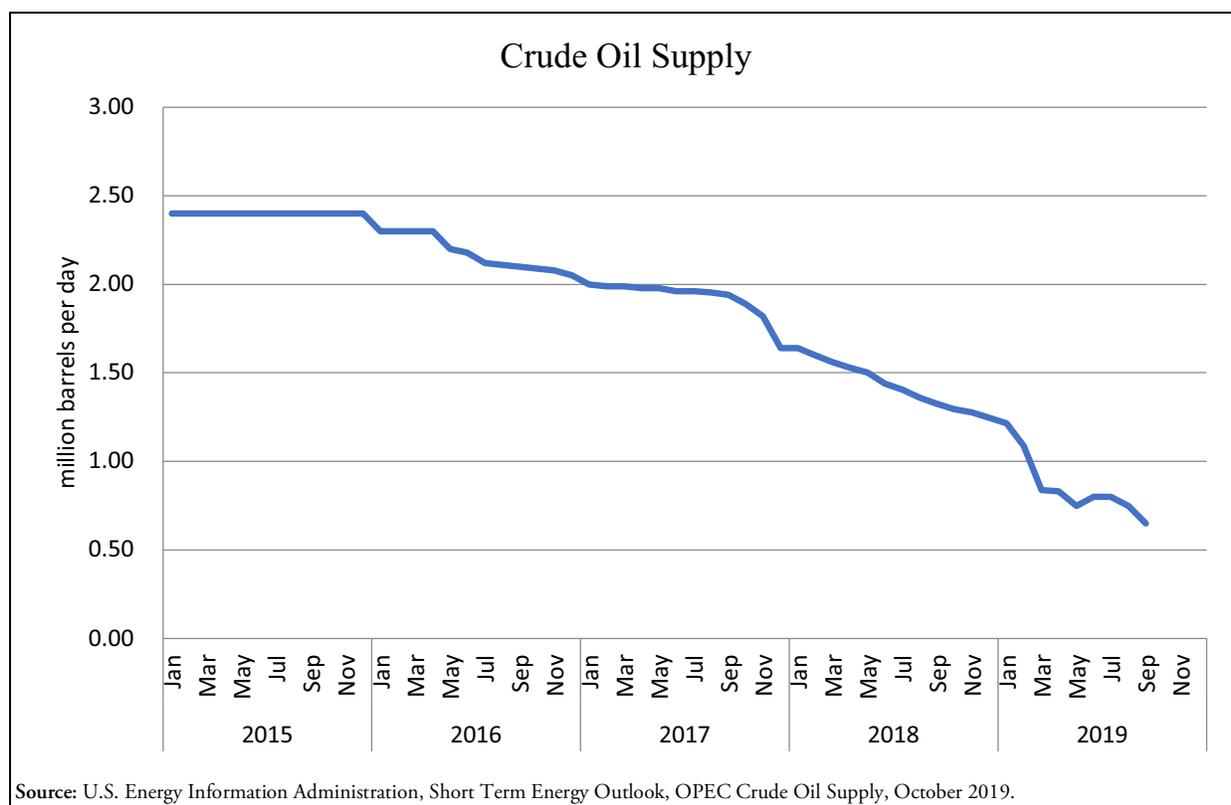
55. <https://tass.ru/politika/6602961>

56. "Russia's Rosneft last major petrol supplier to Venezuela." *Financial Times*, August 8, 2019. <https://www.ft.com/content/d0645804-b7a3-11e9-96bd-8884d3ea203>

57. <https://tass.ru/ekonomika/6925634>

58. <https://thebell.io/en/scoop-russian-officials-wrote-an-economic-program-for-venezuelan-president-maduro-s-second-term/>

59. Valdai Discussion Club Session. October 3, 2019; <http://en.kremlin.ru/events/president/news/61719>

Figure 1. Monthly Venezuela crude oil production (2015–2019)**Table 1. Venezuela: Macroeconomic Projections, 2019–2020**

Variables	Scenarios			
	Status Quo 2019	Status Quo 2020	Long Transition 2020	Shock Therapy 2020
GDP (% change)	-17.5	0.0	1.9	15.8
Inflation (%)	20,418.6	3,544.4	1,929.8	435
Oil Price, Venezuelan Blend (\$USD per barrel)	55	55	55	55
Average Lending Interest (%)	30	30	30	60
Gross International Reserves (\$ billion)	8	8	12	18.5
Official Exchange Rate (bolivares/\$)	57,000	200,000	80,000	50,000
Parallel Exchange Rate (bolivares/\$)	58,000	200,000	80,000	50,000

Source: AGPV, September 3, 2019

game, as in Nicaragua would preserve the aspirations of Chavismo. In this hypothetical situation Maduro or his successor would agree to hold elections in 2020 and create a coalition government to introduce long-term transition and some reforms. The economic package proposed by Russian experts might fit this model. According to AGPV projections, some economic indicators could be improved and flat economic growth could rise to 1.9% in 2020. Cuba's participation would be rather significant in this scenario as well, even if bilateral economic interaction

between Caracas and Havana were to be reduced considerably.

The third scenario (Shock Therapy) suggests a peaceful political transition of power with minimal participation from the army and supporters of Chavismo. It considers an opposition party coming to power at the end of 2019 to launch a new engine of deep reforms with the participation of Bretton Woods Institutions. Under such conditions, Venezuela's GDP growth could jump to 15.6%, inflation would immediately drop by 4–5 times, and the exchange rate would sta-

bilize in 2020. According to IMF estimates, it could be necessary to invest \$18 billion to \$20 billion dollars annually in the country's collapsed economy for 5–7 years. Such a time extension would be needed to accommodate structural and institutional reforms, and rebuild the oil industry to output levels it had in the early 2000s of 3.0–3.5 million barrels per day. Moscow considers the likelihood of such a smooth transformation as being low, because the current opposition in Venezuela remains extremely fragmented, and Chavismo's heritage (particularly its heavy social programs for the country's low income groups) will pressure any new government to maintain populist policies that benefit the poor and the middle class as well.

Finally, in the worst-case scenario, the country would be plunging into an abyss of anarchy and violent chaos, with potential military intervention. It would lead to the emergence of civil conflict, and even a new leftist guerrilla movement. Such a prospect would significantly increase the cost of any foreign involvement and would have long-term negative economic and political outcomes for the whole region, which would largely exceed any "benefits" of foreign military intervention (as in Iraq and Libya). In both the third and fourth cases, Cuba would forever lose Venezuela as an economic sponsor, and neither Russia nor China would be able to fully replace the sponsorship.

Cuba has already felt the impact of the deterioration of the Venezuelan situation: severe shortages of fuel have struck the island because of reduced oil deliveries from Venezuela, and sanctions imposed by the United States in retaliation for Havana's support of Maduro. Russian Prime Minister Medvedev, who visited Cuba in October 2019, promised to solve the problem (exports of Russian oil products to Cuba grew almost four-fold in the first half of 2019).⁶⁰ During this visit Medvedev confirmed that additional fuel shipments will be delivered, and there would be new drilling to further explore

very promising Cuban offshore oil reserves. Both sides have started to work on a roadmap to modernize Cuba's energy sector and enhancing the country's energy security. A Russian energy company plans to build ten generation units at three thermal power plants. Moscow is ready to become the strategic partner of Cuba in the generation of nuclear power if the country's authorities review their stance regarding the development of nuclear energy.⁶¹ Russia is also offering grain supplies to Cuba to replace imports from Canada and France, and also to modernize the whole railway infrastructure of the island (about 1,000 kilometers) to increase passenger flow and trade turnover by 2–3 times.⁶²

Behind such unprecedented offers of economic rapprochement there are palpable geopolitical interests. Russia is trying to return Havana to its orbit by creating contacts at the highest political levels, including the Russian Security Council. This possibility, emerging out of the Venezuelan crisis, would bring about a reset of the Cuban economic model. Will this push Cuba to implement new market-oriented reforms? It is unlikely. There are no indications of such intentions, at least currently. At the same time, dramatic events in Caracas have sent a clear signal to the conservative, orthodox Cuban leadership regarding the imminent risks of a political thaw—parliamentary democracy can lead to power sharing and a collapse of the socialist system. The potential return of Cuban military advisers and representatives of other law enforcement agencies from Venezuela would also have a measurable political impact on the island's post-Castro evolution. That return would be comparable to the return of French nationalists to Paris after the Algerian War of Independence. Another factor that could continue to have long-term effects on Cuba's eventual trajectory would be strengthening of U.S. sanctions against the island. Welcome back to the future?

60. <https://tass.com/politics/1081616>

61. "Russia ready for nuclear energy partnership with Cuba," TASS, October 3, 2019; <https://tass.com/economy/1081197>

62. <https://tass.com/economy/1081431>