Russia Political Economy Project

Russia in Venezuela:

Geopolitical Boon or Economic Misadventure?

Maximilian Hess

Foreign Policy Research Institute

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COVER: Gold steel pipe network in crude oil refinery (Adobe Stock).

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Executive Summary

Maximilian Hess

In December 2018, the Russian Federation sent two Tupolov-160 supersonic bombers around the world to the Bolivarian Republic of Venezuela. On January 23 2019, the U.S. and a series of Latin American countries recognized Venezuelan opposition leader Juan Guaido as interim president, a move denounced by Moscow, which supports the existing regime of President Nicolás Maduro. These developments have triggered a deluge of headlines and cries of a repeat of the Cuban Missile Crisis or that Venezuela could become a new Syria.

Many claim that Russia is spending billions to establish a new beachhead to advance its geopolitical interests, and indeed, Russia's support for Venezuela does offer some geopolitical benefits. Yet after nearly two decades of close relations, the geopolitical benefits to Moscow have been limited to anti-U.S. posturing and supporting its pose of being a global power.

A closer look at the Russia-Venezuela relationship reveals it is first and foremost profit-oriented. Moscow's outlay on Venezuela is a fraction today of what it once was, as economic ties—from energy-sector joint ventures, to arms deals, to a financial development bank—are afflicted by corruption and state collapse. The recent flurry of Russian activity is primarily aimed at protecting economic interests amid Venezuela's crisis, rather than bolstering geopolitical strength. Geopolitical bluster has helped to cover up the failings of the Kremlin's economic efforts to date. As the Venezuelan Crisis unfolds, Moscow is likely to prioritize defending its economic interests in Venezuela, particularly its oil investments, over its geopolitical ones.

Economics or Geopolitics?

In December 2018, the Russian Federation sent two Tupolov-160 supersonic bombers around the world to the Bolivarian Republic of Venezuela, triggering a deluge of headlines and cries of a repeat of the Cuban Missile Crisis. These came amid a flurry of claims[1] that Russia is spending billions in Venezuela to establish a new beachhead to advance its geopolitical interests. A closer look at the relationship, however, reveals that Moscow's outlay on Venezuela is a fraction today of what it once was, as are related business dealings. The Russian-Venezuelan bilateral relationship is first and foremost profit-oriented, and geopolitical concerns take a backseat.

Venezuela is in the midst of a deep and stinging financial crisis: oil production is at its lowest level in 50 years,[2] and it remains mired in numerous investor disputes and has been barred from Western financial markets. The crisis is political as well, with the government having to forcibly push the opposition from power by effectively stripping the National Assembly of all its powers after the 2017 election. Its effect on the country has been tremendous, the average Venezuelan has lost 24 pounds (11 kilograms) in 2017, pushing more than 90 percent of the population into poverty,[3] and the United Nations High Commissioner for Refugees (UNHCR) estimates 3.3 million Venezuelans have fled their homeland since 2015 and warns thousands more join them daily.[4] The recent flurry of Russian activity is primarily aimed at protecting economic interests amid this unprecedented crisis, rather than an effort to bolster its geopolitical strength. That the failings of the Kremlin's economic efforts are easily covered up by geopolitical bluster is an added benefit.

> **"After nearly two decades of close relations, Moscow's geopolitical gains are few. The relationship with Caracas helps Moscow project itself as a global power but does little to make this image a reality."**

This is not to say that Russia's support for Venezuela does not offer geopolitical benefits. Caracas has recognized the independence of Russia-dominated breakaway states in Georgia and it has joined many of the Kremlin's criticisms of the international order. But after nearly two decades of close relations, Moscow's geopolitical gains are few; the relationship with Caracas helps Moscow project itself as a global power but does little to make this image a reality. The Kremlin has focused on investing in a series

1 See, for example, DeYoung, Karena and Faiola, Anthony. "In Venezuela, Russia pockets key energy assets in exchange for cash bailouts." *Washington Post*, 24 December 2018, https://www.washingtonpost.com/world/national-security/in-venezuela-russia-pockets-key-energy-assets-in-exchange-for-cash-bailouts/2018/12/20/da458db6-f403-11e8-80d0-f7e1948d55f4_story.html?utm_term=.41bb49246b6d; and Courtney, William. "Russia's next moves in Venezuela should be closely monitored." *The Hill*, 8 January 2019, https://thehill.com/opinion/national-security/424206-russias-next-moves-in-venezuela-should-be-closely-monitored.

2 Stanley, Andrew J. and Verrastro, Frank A. "How Low Can Venezuelan Oil Production Go?" *Centre for Strategic and International Studies*, 18 June 2018, https://www.csis.org/analysis/how-low-can-venezuelan-oil-production-go.

3 Sequera, Vivian. "Venezuelans report big weight losses in 2017 as hunger hits." *Reuters*, 21 February 2018, https://uk.reuters.com/article/us-venezuela-food/venezuelans-report-big-weight-losses-in-2017-as-hunger-hits-idUKKCN1G52HA.

4 Nebehay, Stephanie. "Two million more Venezuelans could flee next year - U.N." *Reuters*, 14 December 2018, https://uk.reuters.com/article/uk-venezuela-migration/two-million-more-venezuelans-could-flee-next-year-u-n-idUKKBN1OD2CB.

of economic ventures rather than geopolitical ones, but Venezeula's recent crisis meant these too have provided lackluster returns, at best.

When Hugo Chavez was President of Venezuela from 1999 until 2013, the relationship was highly profitable for Moscow both economically and geopolitically. Moscow gained a steadfast political ally in Latin America while also securing a business partner for arms sales and oil deals. Russia was not the only one lured into Venezuela's arms—the People's Republic of China, too, has lent heavily to the country. Even the American investment bank Goldman Sachs famously profited off its relationship with Venezuela's Socialist government.

An examination of Russia's efforts, however, reveals that its strategy in Venezuela has encountered many challenges—from joint ventures plagued by corruption, to disappearing funds intended for weapons projects, to delays in repayments on Rosneft's oil loans. Today, Russia's strategy may well be failing—and the fallout for Caracas, Russia's oil sector, and Russian foreign policy may be large.

Managing the Russia-Venezuela Relationship

On the surface, Russia has developed a wide-ranging policy towards Venezuela over the last two decades. Moscow has sold Caracas billions in arms, acquired major swaths of the Venezuelan oil sector, made plans to establish a military base on the Caribbean, invested in Venezuelan gold mines, and trained thousands of Chavista soldiers. The two states appear to be building a robust alliance. Yet, with so many stakeholders, decision-making has been surprisingly limited. Rather than featuring a mixture of relevant voices—notably, the defense, finance, and foreign ministries—Russia's Venezuela policy belongs to one institution, embodied by a single man.

At the core of the bilateral relationship are ties between the majority Russian state-owned oil firm Rosneft and its Venezuelan counterpart, Petroleos de Venezuela S.A. (PDVSA). Rosneft has loaned PDVSA more than $6 billion and invested billions more in joint projects. This financial relationship undoubtedly gives Rosneft outsized influence in Venezuelan affairs, but there is one man with outsized influence at Rosneft, its domineering chief executive, Igor Sechin. Sechin became Rosneft CEO in 2012 and quickly enmeshed his firm into the Venezuelan economy. Yet, even before then, he guided Russia's policy toward its burgeoning Latin American ally.

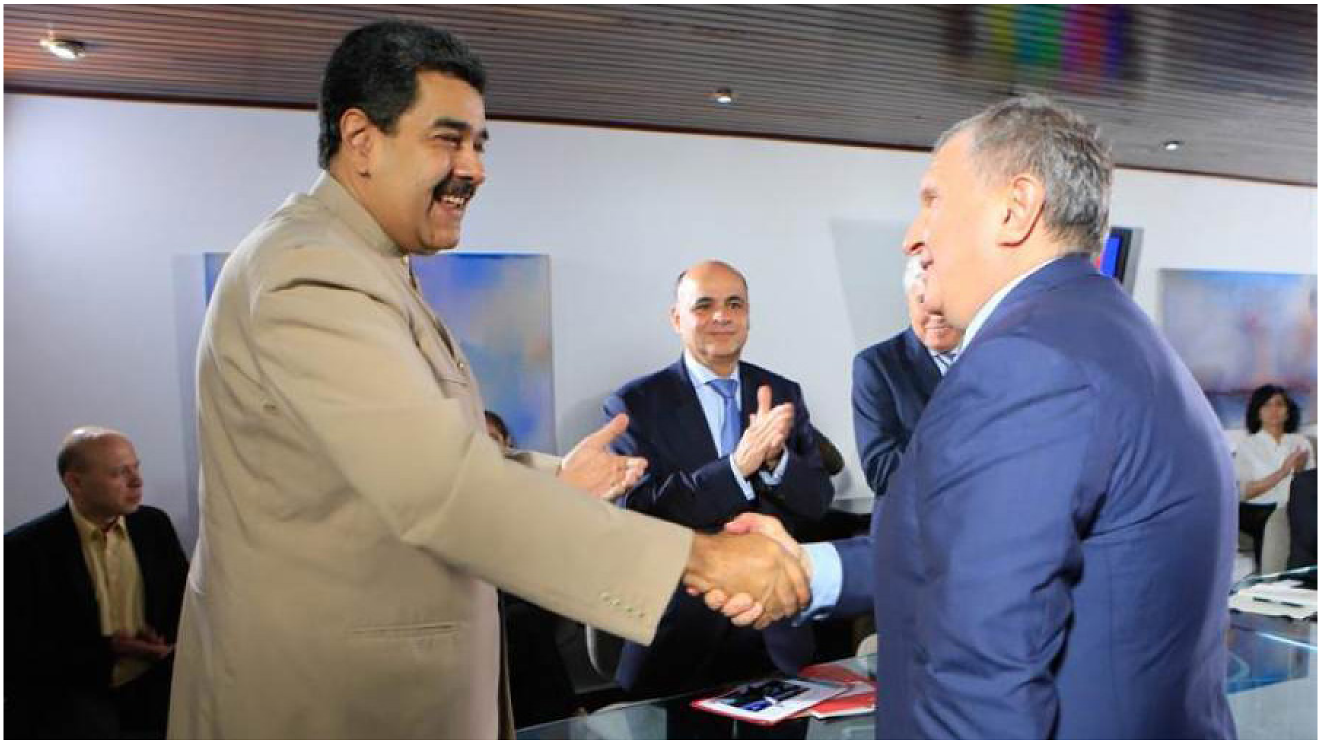
As early as 2008, Sechin, then serving as the head of the High-Level Russian-Venezuelan Intergovernmental Commission, was recognized as "managing the Chavez relationship."[5] At the time having already served as Rosneft's Chairman for four years, he said he was prepared to invest up to $30 billion in oil joint ventures. In 2011, he negotiated and signed an agreement with then-Venezuelan Planning Minister Jorge Giordani to establish a joint development bank,[6] an idea Sechin first proposed in 2009.[7]

Russian-based Evrofinance Mosnarbank —50.1 percent held by Russian state-owned banks VTB and Gazprombank with the remainder owned by FONDEN, Venezuela's

5 Flanagan, Stephen J. and Mendelson Forman, Johanna. "Russia's Reengagement in the Western Hemisphere." *Center for Strategic and International Studies*, 25 November 2008, https://www.csis.org/analysis/russias-reengagement-western-hemisphere.

6 Not Attributed. "RF dast Venesuelye kredit i pomozhet postroit 30 tys. kvartir [Russian Federation will give Venezuela credit and help to build 30 thousand apartments]." *RBC*, 8 December 2011, https://www.rbc.ru/economics/08/12/2011/5703f0269a79477633d3ae98 .

7 Not Attributed. "Sechin: U Rossii i Venesuely bolshiye plany [Sechin: Russia and Venezuela have big plans]." *Vesti*, 15 August 2009, https://www.vesti.ru/doc.html?id=309752.



President Nicolas Maduro and Rosneft CEO Igor Sechin in 2017 (Miraflores Palace).

national development fund,— became the tool for this policy effort. In 2011, the bank became the largest underwriter of Venezuelan bonds, overseeing $3.6 billion in sales, up from zero in 2010.[8] Sechin's strategies appeared to be moving from success to success.

Sechin also embraced the anti-Western nature of the Venezuelan government, though his own exorbitant income casts doubt on the idea that he shares its socialist inclinations. Nonetheless, in a 2014 eulogy—delivered in Spanish—to the founder of modern Venezuela, Sechin hailed Hugo Chavez as "a brilliant politician, one of the founders of the idea of the multipolar world." He compared Chavez's importance to that of Latin American independence leader Simon Bolivar and ended with Che Guevera's famous line "hasta la victoria, siempre!" ("until victory, always!") for good measure.[9]

In contrast to Sechin, Russia's Foreign Ministry appears to have little say in the relationship. Foreign Minister Sergei Lavrov comments on Venezuela relatively infrequently. Experts from the Russian Academy of Science's Institute of Latin American Affairs are called to give quotes to state media, but they often appear unheeded. When Rusoro, a Canadian mining firm whose name evidences its Russian roots, got entangled in a billion-dollar arbitration dispute with Caracas, the Kremlin appeared to keep its distance. Venezuela's finances collapsed in mid-2017 and although the Kremlin restructured some of Venezuela's debts in November 2017, almost a year passed before a delegation from Russia's Finance Ministry visited the country. That visit, along with other recent developments, suggests new actors may be gaining a voice in the Russia-Venezuela relationship.

8 Cancel, Daniel and Rodriguez Pons, Corina. "Chavez's Russia Bank Beats Citigroup in Venezuela Bond Sales." *Bloomberg*, 7 November 2011, https://www.bloomberg.com/news/articles/2011-11-07/chavez-s-russian-bank-beats-citigroup-in-venezuela-bond-sales.

9 Sechin, Igor. *Untitled Eulogy to Hugo Chavez.* Posted to YouTube by Multimedio VTV on 28 July 2014, Retrieved 26 December 2018, https://www.youtube.com/watch?v=-JPZsLGubiC4.

That Evrofinance Mosnarbank eventually became a tool to dodge U.S. sanctions on Venezuela was likely welcomed by Sechin, himself under U.S. sanctions.[10] However, the bank's genuine business operations have been dormant for some time, with no new Venezuelan bond issuances to underwrite or joint ventures to finance. The bank could have supported the development of two Venezuelan offshore gas fields that Rosneft was awarded—at no apparent cost—in December 2017, but no work appears to have occurred on the project.[11]

In November 2018, VTB CEO Andrei Kostin announced that VTB would sell its stake in Evrofinance Mosnarbank. Kostin claims that the Russian government previously offered to buy the stake, but then changed its mind.[12] This is by no means the only Russian-Venezuelan business relationship to fall from once-lofty heights.

Corruption's Claims

Venezuela's economic collapse has led to a spate of revelations regarding just how rampant corruption is in the country. Indeed, Russian interests in Venezuela have been affected. Although several corruption scandals have revealed that Russian business ventures in Venezuela, outside of Rosneft's dealings, are often just vehicles for officials to squirrel state funds to Swiss and Andorran bank accounts.

In October 2018, ex-PDVSA Finance Chief Abraham Edgardo Ortega pled guilty in a Miami court to charges that he had taken bribes and conspired to launder money from PDVSA. Gazprombank paid one of these bribes, ostensibly to be selected to provide financing for the Petrozamora joint venture, in which Gazprombank holds 40 percent and PDVSA holds the remaining 60 percent.[13] A years-long investigation by Venezuela-focused website *infodio* revealed that hundreds of millions were laundered between Gazprombank and PDVSA through a joint venture with a Venezuelan entity called Derwick Associates.[14]

Derwick and Gazprombank were partners in Petrozamora, though Derwick's involvement was obscured. In November 2013 Gazprombank directly loaned the venture $1 billion, paying for oil ahead of delivery in a structure known as a prepayment loan. It was only five years later that *infodio* and a Brazilian news site, Estadão, uncovered that it was really a bribe.[15] Derwick's directors profited to the tune of nearly $800 million according

10 Laya, Patricia and Zerba, Fabiola. "Venezuela Taps Russian Bank to Work Aroun Crippling Sanctions." *Bloomberg*, 25 October 2018, https://www.bloomberg.com/news/articles/2018-10-25/venezuela-taps-russian-bank-to-work-around-crippling-sanctions.

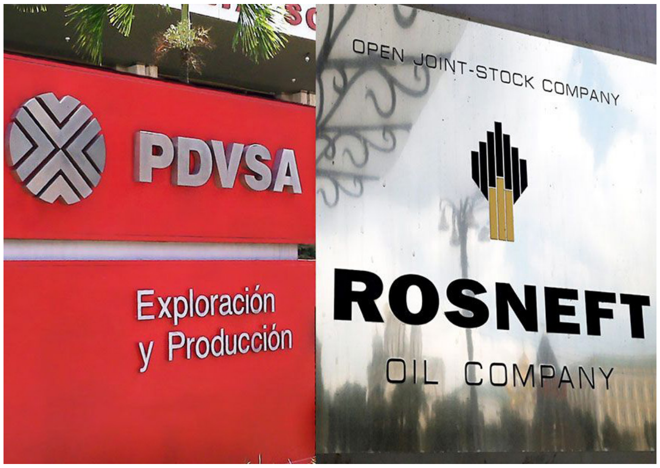
11 Not Attributed. "Venezuela gives Russia's Rosneft gas field concessions: Rosneft." *Reuters*, 17 December 2017, https://www.reuters.com/article/us-russia-venezuela-rosneft-pdvsa/venezuela-gives-russias-rosneft-gas-field-concessions-rosneft-idUSKBN1EB0JN.

12 Filipenok, Artem and Litova, Ekaterina. "Kostin zayavil ob interese k Evrofinance Mosnarbanku investora v Kazakhstane [Kostin mentioned the interest of investors in Kazakhstan in Evrofinance Mosnarbank]." *RBC*, 28 November 2018, https://www.rbc.ru/business/28/11/2018/5bfeb1e09a7947d19c98317c.

13 Ulmer, Alexandra and Voronova, Tatiana. "Russia's Gazprombank says no role in Venezuela graft case." *Reuters*, 2 November 2018, https://www.reuters.com/article/us-venezuela-pdvsa-companies/russias-gazprombank-says-no-role-in-venezuela-graft-case-idUSKCN1N71WJ.

14 Boyd, Alek. "Gazprombank - Derwick corruption in Venezuela sets sanctions in Switzerland, U.S." *Infodio*, 27 April 2018, http://infodio.com/270418/gazprombank/derwick/sanctions/ofac/switzerland/Venezuela.

15 Chade, Jamil. "Rússia monta com chavistas esquema para lavar dinheiro em paraísos fiscais ["Russia and Chavistas scheme together to launder money through tax havens]." *Estadão*, 22 April 2018, https://internacional.estadao.com.br/noticias/geral,russia-monta-com-chavistas-esquema-para-lavar-dinheiro-em-paraisos-fiscais,70002278302



to *infodio.*[16] As for Gazprombank, the outlet alleges that this laundering scheme in part motivated Swiss financial regulator FINMA's February 2018 decision to ban Gazprombank from accepting new private clients. But this only begins to scratch the surface of the dubious nature of the Gazprombank-Petrozamora relationship.

A document submitted by PDVSA to the U.S. Securities and Exchange Committee (SEC) in 2016 reveals that the initial $1 billion loan was followed by another major loan just a month later. The second loan, granted in December 2013, came from a subsidiary of GPB Global Resources, a Gazprombank subsidiary. Through GPB, Gazprombank lent Petrozamora another $250 million to be repaid in oil, with the potential to increase prepayments to $1 billion.[17] PDVSA reported to the SEC that $73 million remained outstanding at the end of 2015 on the GPB loan.[18] The filing's language made it clear that additional prepayments for oil were undertaken in 2015 beyond the initial $250 million.[19] Then, in the third quarter of 2016, Gazprombank sold 83% of GPB Global Resources for $249.4 million.[20]

Who bought GPB remains unknown. But it is clear that an insider benefited; a document[21] posted to GPB's website in 2017[22] reveals that GPB remained incorporated at addresses still associated with Gazprombank in Amsterdam, Moscow, and Venezuela. Gazprombank had paid 26.945 billion rubles, roughly $450 million, to the Venezuelan government for additional licenses for GPB just sixteen months prior to GPB's sale.[23] These attempts to obscure the status of their loans and the parties involved strongly support assertions that the relationship between Gazprombank and Petrozamora was highly corrupt.

While *infodio* argues that Derwick's directors made off like bandits, the sale of GPB means that the fate of the second loan has

16 Boyd, Alek. "UPDATED 03/04/2017: Derwick Oil & Gas laundering money with Gazprombank via PDVSA." *Infodio*, 3 April 2017, http://infodio.com/14032016/derwick/oil/gas/money/laundering/gazprombank/pdvsa/petrozamora

17 Not Attributed (Petroleos de Venezuela, S.A). "Petroleos De Venezuela, S.A. Offers to Exchange." 16 September 2016, https://www.sec.gov/Archives/edgar/data/906424/000119312516712239/d171369dex99t3e.htm.

18 SEC filings from PDVSA do not contain any details on Petrozamora's repayments on the November 2013 loan.

19 The document notes that the outstanding balance on the loan on 31 December 2015 was $73 million, whereas it was only $8 million in 2014, which strongly indicates that at the minimum an additional $65 in additional prepayments for oil were undertaken in 2015.

20 Not Attributed. "Grupp Gazprombanka prodala 83% GPB Global Resources za $248 mln 'tretey storone [Gazprombank Group sells 83% of GPB Global Resources for $248m to a third party]." *Interfax News Wire*, republished by *Vedomosti*, 26 November 2016, https://www.vedomosti.ru/business/news/2016/11/29/667437-gazprombanka-global.

21 Not Attributed (GPB Global Resources). "Group Overview 2017." 2017, http://www.gpb-gr.com/general/upload/docs/GPB_GR_Group_overview_2017_eng.pdf. Archived by *El Tiempo Latino* at http://eltiempolatino.com/documents/2018/apr/29/gpb-global-overview-2017/.

22 Not Attributed. "Corrupcion: Conexion Rusia-Venezuela [Corruption: The Russia-Venezuela Connection]." *El Tiempo Latino*, 30 April 2018, http://eltiempolatino.com/news/2018/apr/30/gobierno-sanciona-gazprombank-Derwick/.

23 Not Attributed (Gazprombank). "Gazprombank Consolidated Financial Statements Year Ended 31 December 2015." 31 March 2016, p. 61, https://www.gazprombank.ru/upload/files/iblock/a64/GPB_IFRS_2015_12m_ENG2.pdf.

disappeared from Gazprombank's books. Even a Russian state entity's involvement was not enough to protect the scheme, however. The Venezuelan government arrested several officials, including ex-Oil Minister Eulogio del Pino, on corruption charges related to Petrozamora in November 2017.[24] In addition to these arrests, the rare sanction from Switzerland's banking regulator and the sale of a large stake in GPB at a price well below what it had paid for just part of its assets make clear that the relationship was not profitable for Gazprombank.

Another aspect of Russian-Venezuelan ties blighted by corruption is the arms trade. Arms deals once amounted to a billion dollars per year. An initial flurry of sales came between 2005-07, when the Kremlin claims to have sold more than $4.4 billion in arms to Caracas. Moscow then followed up with a $1 billion loan for further purchases in 2008. In 2009, Chavez announced some $2.2 billion in Russian financing for the S-300 missile system and dozens of tanks. The Kremlin then agreed a $4 billion arms-for-oil deal in 2010.

Naturally, much of Venezuela's present arsenal is now of Russian origin, though these figures are clearly overinflated. Nonetheless—or perhaps as a result—the trade also made many intermediaries and officials quite wealthy. Perhaps, the most egregious example was revealed through an investigation by Russian media outlet *RBC* in August 2018.[25] Russian officials allegedly skimmed millions off a $474 million deal to construct Kalashnikov and associated ammunition factories. First announced in 2009 with an expected 2012 opening, the plants are now supposed to open in 2019, though further delays are to be expected.

According to Venezuelan news site *Al Navio*, sales between 2012 and 2015 from Russia to Venezuela amounted to just over $1 billion.[26] Though this still represented 66 percent of Caracas' arms purchases,[27] it is clear this trade has fallen out of favor. There have been no new Russian arms sales to Venezuela since 2014.[28]

Moscow has taken a loss on its Venezuelan arms dealing, agreeing in November 2017 to restructure roughly $3.15 billion of Venezuela's official interstate debts.[29] Russian and Venezuelan state media issued near-identical statements in December 2017 announcing the completion of deliveries under these deals.[30] It seems unlikely there will be more.

24 Not Attributed. "Venezuela's ex-oil minister and ex-PDVSA head arrested." *BBC*, November 2017, https://www.bbc.com/news/world-latin-america-42182289.

25 Serkov, Dmitry; Sidorkova, Inna; and Solopov, Maksim. "Kak raskhishchalis millardy dlya stroitelstva patronnogo zavoda v Venesuelye [How billions were stolen for the construction of an ammunition factory in Venezuela]." *RBC*, 3 August 2018, https://www.rbc.ru/society/03/08/2018/5b62c2ec9a79473bd5833af8.

26 Chinchetur, Antonio Jose. "Nicolas Maduro no tiene dinero ni para comprar armas [Nicolas Maduro does not have any money to buy weapons]." *Al Navio*, 15 March 2018, https://alnavio.com/noticia/13128/actualidad/nicolas-maduro-no-tiene-dinero-ni-para-comprar-armas.html.

27 Ibid.

28 Not Attributed. "SIPRI: Rossiya uderzhivayet vtoroye mesto v mirovom eksportye oruzhiya [SIPRI: Rissoa sits at second-place globally for arms exports]." *RIA Novosti*, 12 March 2018, https://ria.ru/20180312/1516128968.html.

29 "Russia extends lifeline as Venezuela struggles with 'selective default.'" *Deutsche Welle*, 16 November 2017, https://www.dw.com/en/russia-extends-lifeline-as-venezuela-struggles-with-selective-default/a-41402510.

30 "Russia wraps up large arms deal with Venezuela." *TASS*, 4 December 2017, http://tass.com/defense/978893; and Not Attributed. "Venezuela Receives Last of Major Arms Shipment from Russia." *Telesur*, 4 December 2017, https://www.telesurenglish.net/news/Venezuela-Receives-Last-of-Major-Arms-Shipment-from-Russia-20171204-0027.html.

Not All Rosy in the Rosneft-PDVSA Relationship

Rosneft, as far is publicly known, has managed to avoid these massive corruption-related losses. Its role in the Venezuelan economy and its interconnectedness with PDVSA simply run too deep for the shenanigans witnessed in the Kalashnikov and Gazprombank scandals. Rosneft owns between 26 and 40 percent of several major Venezuelan oil fields. It also holds a 40 percent stake in the Petromonagas upgrader, which allows Venezuela to dilute its ultra-heavy crude into some 150,000 barrels per day of more exportable product. This is dilution mechanism is key as Venezuela produced just 1.46 million barrels per day at the end of 2018.[31]

Rosneft has continued to announce new deals with PDVSA despite the firm's challenges. In November 2016, just one month after PDVSA restructured billions of dollars' worth of 2017 bonds in exchange for a 2020 note, Rosneft loaned PDVSA $1.5 billion. As collateral, the Russian oil major received a 49.9 percent stake in U.S. oil energy company Citgo.[32] (Citgo owns three major refineries and a number of important oil pipelines.) The only bond Venezuela has remained current on since the restructuring is the 2020 PDVSA bond, which bondholders agreed to take only after being given a lien over 50.1 percent of Citgo. PDVSA continued to pay out this note because of the importance of Citgo both as a destination for its exports and as a source of lighter crude to blend with Venezuela's heavy output. The price disparity for these Citgo-secured loans—Rosneft had to pay $1.5 billion for its lien, just more than half of the $2.8 billion in bonds that were restructured into the 2020 note—demonstrates just how deep ties between the two run.

Of course, the relationship has not been without its issues. U.S. sanctions have affected both Rosneft and PDVSA, though those enacted on the latter are far more restrictive. Rosneft is subject to so-called "sectoral sanctions," which bar it from seeking most financing in Western markets and prohibit U.S. support for its offshore and fracking plans. The U.S. sanctions regime on Venezuela is more recent, but even more stinging. Venezuela is barred from seeking any financing in Western markets and much of its political and economic elite are blacklisted. While this has to some extent pushed Caracas and Moscow closer together, it consistently causes headaches for the pair as well. Planned repairs at the Petromonagas upgrader, for instance, were repeatedly delayed throughout 2018 as sanctions hindered the shipment of replacement parts.

> **"A far greater challenge for the relationship has been the breakdown of the Venezuelan state. Oil production —i.e., PDVSA's output—has collapsed in recent years, while individuals loot and sabotage PDVSA sites."**

A far greater challenge for the relationship has been the breakdown of the Venezuelan state. Oil production—i.e., PDVSA's output—has collapsed in recent years, while individuals loot and sabotage PDVSA sites. After the opposition won control of

31 Parraga, Marianna and Ulmer, Alexander. "Special Report: Oil output goes AWOL in Venezuela as soldiers run PDVSA." *Reuters*, 26 December 2018, https://www.reuters.com/article/us-venezuela-pdvsa-military-special-repor/special-report-oil-output-goes-awol-in-venezuela-as-soldiers-run-pdvsa-idUSKCN1OP0RZ.

32 "Venezuela's PDVSA uses 49.9 pct Citgo stake as loan collateral." *Reuters*, 23 December 2016, https://www.reuters.com/article/venezuela-pdvsa-idUSL1N1EI1FO.

Venezuela's National Assembly in December 2015, President Nicolás Maduro replaced the body with a new "constituent assembly" and instructed it to draft a new constitution. The move plunged Venezuela into the ongoing turmoil. With widespread unrest and a refugee crisis unprecedented in the history of modern South America, the situation will likely not improve in the foreseeable future.

In November 2017, Rosneft Vice President Pavel Fedorov announced that the firm had no plans to lend further to Venezuela.[33] Rosneft's first quarterly financial report in 2018 specifically detailed repayments from PDVSA, an attempt to assuage investors' and creditors' concerns about Rosneft's own debts, which expanded significantly in 2017.[34]

Only a month later, however, PDVSA and Rosneft discreetly agreed on a "remediation plan" to restructure their oil-for-loan agreement after PDVSA could not maintain its crude oil deliveries.[35] Even this agreement foundered as damage to Venezuela's main oil exporting port, Jose, stalled deliveries to Rosneft.[36] Rosneft's quarterly statements thus reflected repayments from PDVSA falling from $600 million in 1Q 2018 to $400 million in 2Q, before ticking up to $500 million in 3Q. These numbers belie Sechin's assertion in January 2018 that there were "no significant risks" regarding Rosneft's business dealings in Venezuela.[37]

Developments since have shown that concern about such risks is certainly present among Rosneft leadership. In mid-November 2018, Sechin made an unannounced visit to Caracas to discuss payment delays. He reportedly brought documents showing that PDVSA was honoring its scheduled repayments to China, but not to Rosneft.[38] China is willing to engage in riskier ship-to-ship transfers to avoid challenges at Venezuela's ports, but Venezuela's declining production and ongoing political crisis mean that it will unlikely be able to maintain its scheduled repayments to both China and Russia in the coming years.

"Despite the corruption-induced losses and collapse of Venezuelan industry, Sechin's grasp on Russia's Venezuela policy is likely to remain firm even as others are raising concerns."

Finally, it is worth noting that some factions in the Kremlin have begun pushing back against Russia's Venezuela strategy. The Finance Ministry, for example, has repeatedly denied Caracas' claims that settlements between the two countries may move to the "Petro," Venezuela's fanciful cryptocurrency. Most recently, in October 2018,[39] Russia's Deputy Finance Minister Sergei Storchak visited

33 Korsunkaya, Darya; Nikolskaya, Polina; and Stubbs, Jack. "Russia restructures Venezuelan debt, PDVSA loans not included." *Reuters*, 15 November 2017, https://www.reuters.com/article/russia-venezuela-debt-details/update-1-russia-restructures-venezuelan-debt-pdvsa-loans-not-included-idUSL8N1NL4F8.

34 Foy, Henry. "Rosneft seeks to ease fears over Venezuela loans." *Financial Times*, 19 March 2018, https://www.ft.com/content/b4664ec8-2b77-11e8-9b4b-bc4b9f08f381.

35 Parraga, Marianna. "Venezuela's PDVSA to reopen damaged port dock by month's end - documents." *Reuters*, 12 September 2018, https://www.reuters.com/article/venezuela-oil-ports/update-1-venezuelas-pdvsa-to-reopen-damaged-port-dock-by-months-end-documents-idUSL2N1VY11K.

36 Ibid.

37 Mihm, Andreas. "Schröder, Setschin und Putin's Oel [Schroeder, Sechin, and Putin's Oil]." *Frankfurter Allgemeine Zeitung*, 29 January 2018, https://www.faz.net/aktuell/wirtschaft/unternehmen/rosneft-chef-igor-setsch-in-uebers-geschaeft-15422926.html.

38 Parraga, Marianna and Ulmer, Alexandra. "Rosneft's Sechin flies to Venezuela, rebukes Maduro over oil shipments." *Reuters*, 24 November 2018, https://www.reuters.com/article/us-russia-venezuela-exclusive/exclusive-rosnefts-sechin-flies-to-venezuela-rebukes-maduro-over-oil-shipments-idUSKCN1NT0TJ.

39 "Rossiiskie chinovniki poekhali spasat Venesuelu ot krizisa [Russian officials travel to save Venezuela from crisis]." *BBC Russian Service*, 29 October 2018, https://www.bbc.com/russian/news-46023729.

Venezuela and declined Caracas' request to permanently base a Russian Finance Ministry representative in the Venezuelan capital.[40]

Storchak's involvement here is notable. In 2007-08, Storchak—an ally of Putin's closest liberal economic advisor, Alexey Kudrin—spent 11 months in jail on corruption charges. Many speculate that Sechin had a hand in Storchak's arrest, while Kudrin advocated for Storchak's release.[41] Tensions between Kudrin's allies and Sechin continue today.

Even if Storchak's trip shows that others are willing to push back against Sechin's strategy in Venezuela, the Rosneft CEO clearly commands more authority than he did in 2007-08. In 2016, then-Economy Minister Alexei Ulyukayev—another Kudrin ally—was arrested on corruption charges, widely seen as trumped-up. Ulyukayev was accused of demanding a bribe from Sechin, ostensibly to approve Rosneft's takeover of another oil firm that Ulyukayev had publicly criticized. When Ulyukayev's was sentenced to eight years in prison in December 2017, Kudrin decried the ruling as "a terrible, unreasonable sentence," warning that "such injustice, alas, is now faced by many."[42] Despite the corruption-induced losses and collapse of Venezuelan industry, Sechin's grip on Russia's Venezuela policy is likely to remain firm even as it is clear others are raising concerns.

Limited Geopolitics

Just as Sechin remains publicly blasé about the risk of PDVSA's prepayments, he asserts that Rosneft's actions are not influenced by geopolitics. "Just business, and a good profitable business at that," Sechin explains.[43] This is a partial truth, at best. The relationship does have a geopolitical angle that concerns Russia's relationship with India, China, and the United States. But the geopolitics flows from the business relationship. As Venezuela's crisis and defaults have highlighted the risks of ties with the Maduro regime, geopolitics has garnered more attention. In turn, it deflects notice from the poor state of business.

Since Rosneft's 2016 Citgo-secured loan, Russia has ceased lending to Venezuela despite Caracas' pleas. In December 2018, Maduro visited Moscow and boasted $6 billion of new investments in Venezuela's oil and gold mining sector. He also touted a deal for Russia to supply Venezuela with 600,000 tons of grain in 2019. However, no such announcement followed from Russia, and unnamed Russian officials cast doubt on Maduro's statements in the *Financial Times* shortly thereafter.[44] Russia's Ambassador to Venezuela Vladimir Zaemsky later announced that Russia had already delivered 600,000 tons of grain to Venezuela in 2018.[45] He asserted that new gold mining deals were

40 Not Attributed. "Venesuela zaprosila u Minfina Rossii finansovogo konsultanta [Venezuela requests a financial advisor from Russia's Ministry of Finance]." *Vedomosti*, 2 November 2018, https://www.vedomosti.ru/economics/news/2018/11/02/785533-venesuela.

41 Butrin, Dmitry; Netreba, Pyotr; and Rebrov, Denis. "Svet v kontse skvazhiny [Light at the end of the well]." *Kommersant*, 13 August 2008, https://www.kommersant.ru/doc/891017.

42 Foy, Henry. "'We need to talk about Igor:' the rise of Russia's most powerful oligarch." *FT Magazine*, 1 March 2018, https://www.ft.com/content/dc7d48f8-1c13-11e8-aaca-4574d7dabfb6.

43 Op. Cit. Mihm, Andreas. "Schroeder, Setschin und Putin's Oil."

44 Astrasheuskaya, Nastassia; Foy, Henry; and Long, Gideon. "Will Russia keep its $6bn promise to Venezuela?" *Financial Time*s, 10 December 2018, https://www.ft.com/content/d6f21056-fba8-11e8-aebf-99e208d3e521.

45 Namensky, Dmitry. "Rossiya postavila v Venesuelu 600 tysyach tonn zerna v 2018 gody [Russia sent 600 thousand tons of wheat to Venezuela in 2018]." RIA Novosti, 26 December 2018, https://ria.ru/20181226/1548722751.html

offered, but not agreed to.[46] Maduro's Moscow announcements, then, were an attempt to cast old deals as new.

While the Kremlin appears unwilling to offer Venezuela new loans—a sign that its hope for economic returns have soured—the geopolitics of the relationship has become more beneficial to both countries, even if the benefits are relatively limited. Caracas is desperate for allies. The Maduro regime overplays Moscow's support to make its claims of new investment and socio-economic improvements believable. For the Kremlin, the relationship suits its narrative of resisting U.S. hegemony. It also enables Russia to present itself as a global military power willing to defend allies against U.S. threats, real and imagined—though in Caracas' case they are very much the former.[47]

One stark example of such signaling was the December 2018 visit of two Russian Tupolev-160 supersonic bombers, which attracted headlines around the world. Compared to new loans, however, the move represents a far cheaper and shallower signal of support. It is not the first time Russia has engaged in such signaling. In September 2008,[48] a pair of the same model aircraft visited Venezuela just a month after the Russo-Georgian War deteriorated U.S.-Russia relations. At the time, cheap-but-symbolic shows of Russia's great power strength were popular in the Kremlin. That Russia's Defense Ministry released video of the jets' latest flight to Venezuela[49] indicates it not only anticipated, but probably desired, such global coverage.

"In the mid-2000s, Russia's support for Venezuela opened doors across Latin America. But in recent years, most of these leaders have fallen from power."

Indeed, hyperbolic and shallow coverage of the Russian-Venezuelan relationship in Western media is one of its most notable features. On December 17, 2018, Britain's largest tabloid, the *Daily Mail*, ran the headline: "Russia announces plans to set up its first ever military base in the Caribbean - the country's largest presence in the region since the Cuban Missile Crisis in 1962."[50] Moscow had done no such thing. The next day senior Venezuelan official Diosdado Cabello denied the reports, although the *Daily Mail* did not issue a retraction or an update. Cabello's

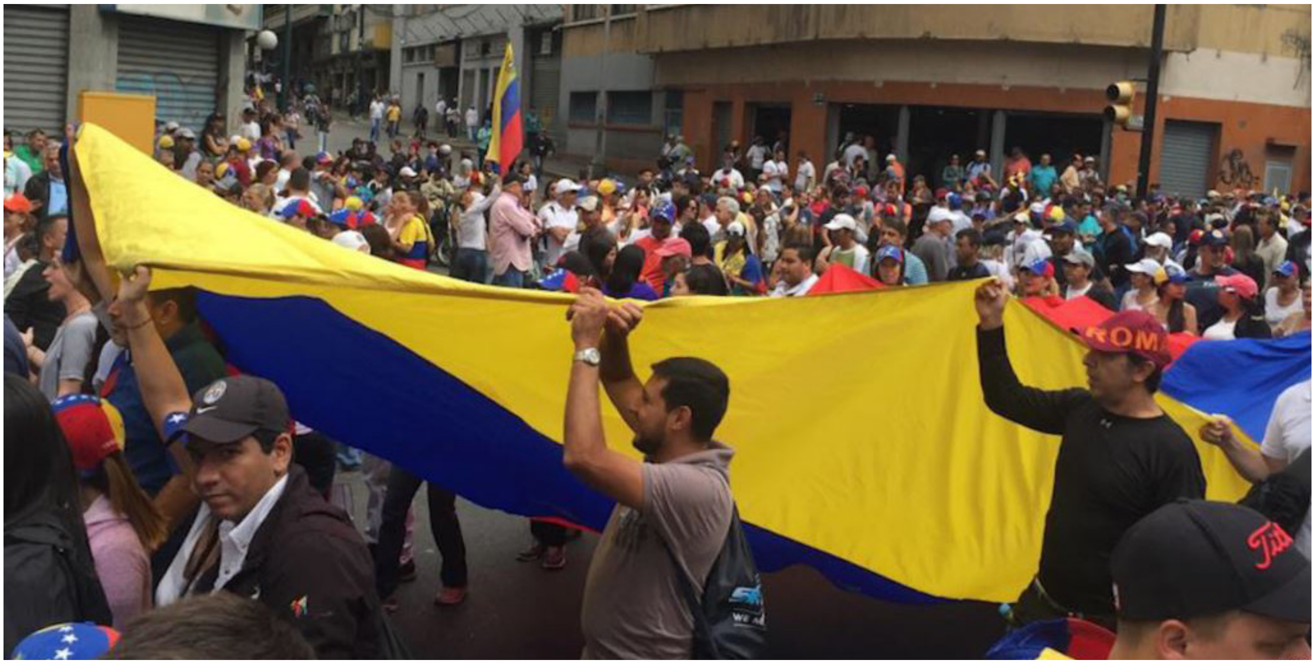
46 Znamensky, Dmitry. "Venesuela predstavila Rossii predlozheniya po uchastiyu v zolototodobyche [Venezuela sends proposals to Russia to invest in gold mining]." *RIA Novosti*, 26 December 2018, https://ria.ru/20181226/1548721753.html.

47 In July 2018, the Associated Press cited an unnamed U.S. official as claiming that President Donald Trump had pushed for an invasion of Venezuela. Two months later, the *New York Times* would report the Trump administration had held secret meetings with Venezuelan officers attempting to launch a coup. See: Goodman, Joshua. "Trump pressed aides on Venezuela invasion, US official says." *Associated Press*, 5 July 2018, https://www.apnews.com/a3309c4990ac4581834d4a654f7746ef; and Casey, Nichoals and Londoño, Ernesto. "Trump Administration Discussed Coup Plans With Rebel Venezuelan Officers." *New York Times*, 8 September 201, https://www.nytimes.com/2018/09/08/world/americas/donald-trump-venezuela-military-coup.html.

48 Not Attributed. "Russian bombers in Venezuela amid tension with U.S." *CNN*, 11 September 2008, http://edition.cnn.com/2008/WORLD/americas/09/11/russia.venezuela/index.html.

49 Valkhanskaya, Natalya. "Nad Karibskim moryem iz kabiny Tu-160: zakhvatyvayushchie kadry iz Venesuely [Over the Caribbean from the cockpit of the TU-160: breathtaking footage from Venezuela]." *TV Zvezda*, 13 December 2018, https://tvzvezda.ru/news/forces/content/201812130350-4vkj.htm.

50 Martin, George. "Russia announces plans to set up its first ever military base in the Caribbean - the country's largest presence in the region since the Cuban Missile Crisis in 1962." *Daily Mail*, 17 December 2018, https://www.dailymail.co.uk/news/article-6504447/Russia-announces-plans-set-military-base-Caribbean.html.



Protests in Caracas, January 2019. (Wikimedia Commons)

denial received little attention. When it comes to posturing, Russia's relationship with Venezuela serves the Kremlin well.

The relationship is not entirely limited to posturing, though its effect on Latin American geopolitics is mild. In the mid-2000s, Russia's support for Venezuela opened doors across Latin America as leftist governments sympathetic to the Bolivarian state swept to power, but in recent years, most of these leaders have fallen from power.

Sechin, however, has opened a new door through the 2017 purchase of a large stake in Indian oil refiner Essar, since renamed Nayara. Nayara is one of the largest purchasers of Venezuelan crude, as well as a sizeable purchaser of Iranian oil. The deal was primarily intended to protect Rosneft's interests in Venezuela, but it does have a geopolitical dimension. Sechin's purchase grants Rosneft influence over India's oil supply and, thus, its willingness to push back against U.S. sanctions.

The lien over Citgo provides Rosneft with a stake in the U.S. refiner's future, even as leading U.S. politicians vow to bar Rosneft from ever taking hold of the stake.[51] Russia now has a seat at the table in any restructuring of Venezuela's debts, even if the Bolivarian government ultimately falls. Rosneft's ability to cause complications for Citgo will help it secure the energy assets it has received from the Chavez and Maduro regimes. Washington will surely prioritize Citgo's future over Rosneft's interest in Venezuela proper.

A final geopolitical angle of Russia's relationship with Venezuela has been the alignment of its interests there with China's. However, as previously mentioned, this geopolitical triangle could falter as Caracas' downward spiral continues and doubts emerge as to whether it can remain current on oil repayments to both Moscow and Beijing. In contrast to Maduro's fruitless December 2018 Moscow visit, the Venezuelan president did secure a $5 billion loan from Beijing

51 Olson, Bradley and Solomon, Jay. "U.S. Examines Russia's Grip on Citgo Assets." *Wall Street Journal*, 18 May 2017, https://www.wsj.com/articles/u-s-examines-russias-grip-on-citgo-assets-1495155049.

following a trip in September.[52] While there is less hyperbolic coverage of the Venezuela-China relationship in the Western media, Beijing—which was previously drawing-down its credit exposure to Caracas—appears more willing to reopen the taps than Moscow. The fate of the Venezuelan state, and its oil, may thus prove an early test of Russia and China's recent practical alliance.

A Murky Future

The increasing press surrounding Russia and Venezuela's relationship creates the illusion of a thriving alliance. While there may have been a frenzy of developments recently, these are the result of salvaging attempts. It is true that, along with China and holders of the PDVSA 2020 bond, Russia is one of the few creditors to whom the Venezuelan regime has endeavored to remain current. But it is clear that the relationship faces challenges—from corruption-afflicted arms deals and Caracas' bankrupt coffers to the failure of the Evrofinance Mosnarbank tie-up and the risk that Rosneft will not receive its pledged oil on time. These challenges are not new, but they demonstrate that Russia's efforts to cultivate profitable business in Venezuela have fallen far short of their goals.

Eric Farnsworth, Vice President of the Council of the Americas and the Americas Society, recently told the *Washington Post* that "the establishment of a political outpost in the Western hemisphere would represent a strategic win (for Russia) . . . if they lose a few billion dollars, maybe that's okay."[53]

52 Not Attributed. "China to Lend Venezuela $5 Billion as Maduro Visits Beijing." *Bloomberg*, 13 September 2018, https://www.bloomberg.com/news/articles/2018-09-13/china-to-give-venezuela-5-billion-loan-as-maduro-visits-beijing.

53 Op. Cit. DeYoung, Karena and Faiola, Anthony. "In Venezuela, Russia pockets key energy assets in exchange for cash bailouts."

But geopolitically, the relationship is limited to posturing, and Moscow still risks losing out to Beijing if China is willing to furnish the Venezuelan regime with loans while largesse from Moscow ceases. Moscow has played a strategy—as evidenced by the Citgo lien—that aims to protect its interests even if the Maduro regime collapses. This is not guaranteed to succeed; Russia may be willing to spend a few billion dollars to secure a strategic outpost, but it is premature to say that it has succeeded in doing so.

As long as Caracas remains current on oil deliveries and Rosneft's control of its Venezuelan assets remains intact, the relationship will prove a net positive for Rosneft—even as other business tie-ups fall far short of their intended profits. Geopolitical benefits will remain limited to posturing unless Moscow doubles down on its commitment to Caracas as it has done for the Syrian regime.

The claims that Russia will build a base in Venezuela should be treated as fantastical at best. While talk of a Russian base may pick up as Washington intensifies its anti-Maduro rhetoric—and particularly if Washington recognizes the opposition-controlled National Assembly as the sole legitimate Venezuelan government—there is little appetite in Moscow for such a project. Initial reports on a potential base originated not from Russian officials, but rather from the leftist *Nezavisimaya Gazeta*.[54] The article noted that the idea was floated in 2009—a time when Russian-Venezuelan relations were at their strongest, new business deals were regularly being executed, and declining Russian-Western relations after Moscow's war with Georgia the previous August—by a Russian general who, even then, said the

54 The article would subsequently be referenced in a Russian state media round-up, leading to incorrect assumptions about its origins.

project lacked the necessary political will.[55]

After the U.S. recognition of Venezuelan opposition leader Juan Guiado as interim president on January 23, 2019, it could be that the Kremlin judges such military support to be the only method to protect Russia's investments in Venezuela from imploding. *Reuters* quickly reported that a mysterious Russian military grouping may have been deployed to Venezuela to protect the Maduro regime,[56] though Russia's ambassador denied it.[57] Corruption, failed investments, and limited geopolitical gains mean that the Kremlin's willingness to throw good money at the collapsing state is clearly waning. Sechin in particular may push a bullish line, but even Rosneft has not been willing to extend new credit to Maduro and, as noted earlier, he had to fly to Venezuela in November 2018 to pressure the regime into increasing its efforts to honor previous commitments.[58] A resolution in Venezuela that protects Russia's investments, in particular Rosneft's, could be enticing even if is at the expense of maintaining Caracas as a geopolitical ally; at least one far-right Russian outlet hinted this could be a viable path forward.[59]

The outcome of Russia's Venezuelan adventures may impact Igor Sechin's own future given how closely intertwined he is with the effort. To date, he has acted with impunity, but Storchak's visit and the cessation of new loans raise the possibility that even Sechin could be forced to cut Russia's losses. Of course, the impact of Russia's Venezuela policy will not be limited to the Kremlin's halls. It has already had significant effects on the oil industry, and further lawsuits from Venezuela and PDVSA's creditors will likely transpire amid uncertainty over Citgo's future. Eventually, Venezuela will need to settle with its other creditors and international partners. Russia will have a seat at the table and will prioritize securing future economic returns even if other actors mitigate Sechin's appetite or ability to take such risks. But it is certainly premature to dub the Kremlin's Venezuelan adventure as a geopolitical boon. Rather, it is an economic misadventure.

55 Mukhin, Vladimir. "Rossiya razmestit v Karibskom more voyennuyu bazu [Russia will place a military base in the Caribbean]." *Nezavisimaya Gazeta*, 11 December 2018, www.ng.ru/politics/2018-12-11/1_7460_cariby.html; and "Press review: Russia to set up Caribbean base and meet Israeli brass to discuss Iran." *TASS*, 12 December 2018, http://tass.com/pressreview/1035596.

56 Tsvetkova, Maria and Zverev, Anton. "Exclusive: Kremlin-linked contractors help guard Venezuela's Maduro - sources." *Reuters*, 25 January 2019, https://www.reuters.com/article/us-venezuela-politics-russia-exclusive/exclusive-kremlin-linked-contractors-help-guard-venezuelas-maduro-sources-idUSKCN1PJ22M.

57 Varfolomeeva, Anna. "Are Russian 'mercenaries' in Venezuela? What we know." *The Defense Post*, 25 January 2019, https://thedefensepost.com/2019/01/25/russian-mercenaries-venezuela-pmc-wagner/.

58 Op. Cit. Parraga, Marianna and Ulmer, Alexandra. "Rosneft's Sechin flies to Venezuela, rebukes Maduro over oil shipments."

59 "Krupneishim kreitorom Venesuely stal Kitai, a ne Rossiya [The largest creditor to Venezuela is China, not Russia]." *Tsargrad*, 24 January 2019, https://tsargrad.tv/news/krupnejshim-kreditorom-venesujely-stal-kitaj-a-ne-rossija_180453.

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