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Protecting Russian assets in Venezuela

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The growing internal crisis in Venezuela, which could lead to a change of power in the country, has placed Russia in a difficult situation. Under the populist dictatorship of Hugo Chavez and his successor Nicolás Maduro, Venezuela has become Russia's principal ally in Latin America. Moscow has invested serious economic and political capital in this country, and so the collapse of the current regime could strike at Russia's geopolitical and economic interests.

Moscow still supports Maduro, mostly rhetorically, although it is clearly not ready to take decisive actions (the use of force) to defend him, especially as the risk is high that any attempt to keep the current regime in power might fail. The recognition of the opposition leader, the parliamentary speaker Juan Guaidó, as interim president by other countries, and above all the attitude of China, which is reluctant to escalate the crisis in Venezuela, means that Russia's position has become ever less clear over the last few days. The Kremlin has begun to call for political dialogue in Venezuela, and declared its readiness to participate in mediation. Moscow's aim is to try to protect Russian interests, including in the case of regime change.

Russian interests in Venezuela

Moscow's moves towards closer relations with Latin America started almost from the beginning of Putin's presidency. The initiator and main executor of this policy is Igor Sechin, whose roots are in Russia's special services (who is a linguist, fluent in Portuguese and Spanish); Sechin is one of Putin's closest associates, and is currently president of the state oil company Rosneft.

Close cooperation with Venezuela has been of special importance to Moscow for geopolitical reasons. Russia's involvement in Latin America, including its support for the regime of Chavez and Maduro, was part of Russia's 'response' to what it saw as the growing US presence in the post-Soviet area. Moreover, the Kremlin could thus demonstrate its ambitions and potential to be an important player on the international stage, and strengthen its position in its relations with the US.

Economic considerations were also an important motive for Moscow's rapprochement with Caracas. Venezuela has the largest oil reserves in the world, but its share in world oil production is negligible (less than 2%), and during Maduro's rule oil production has dropped by half. On the one hand, Russia has supported the development of Venezuela's extractive industry, thus guaranteeing funding for the regime, although the Kremlin has tried to keep control over where the oil is exported. On the other hand, it was in the interests of Moscow to prevent the development of Venezuelan deposits on a large scale, as this could have destabilised the world oil market and led to a decline in oil prices; this would seriously affect the finances of Russia, which itself depends on oil and gas exports.

Since 2006, Russia has given Venezuela financial support estimated at US$17 billion. These have included both state loans to purchase Russian weapons (including 23 Su-30 fighters, two sets of S-300 systems and 92 modernised T-72 tanks) and investments & loans from Russian economic entities (primarily Rosneft) for the Venezuelan extractive industry (mostly oil). However, Russia has managed to recover most of this money. At the end of 2018 Caracas's debt to the Russian state was around US$3 billion, and the Venezuelan oil company PDVSA owed Rosneft a further US$3 billion (the majority of these loans were granted under the pledge of Venezuelan assets or guarantees of oil supplies). Rosneft controls 49% of a refinery in Texas belonging to Citgo, a subsidiary of PDVSA, and also holds licenses for the development of the Patao and Mejillones shelf deposits.

Russia's position on the crisis in Venezuela

Russia has consistently demonstrated its support for Maduro, including during the rising political and economic crisis in Venezuela during 2018. First of all, it recognised the legality of the presidential election in May, when Maduro declared victory and accused Washington of trying to change the government in Caracas (including by the use of force). In October, experts from Russia's finance ministry went to Venezuela, where they were asked for technical support in developing an anti-crisis programme. In November, Igor Sechin went to Caracas and discussed further loans to Venezuela. Consequently, in December, during Maduro's visit to Moscow, Russia pledged another US$6 billion of support for the needs of the Venezuelan extractive industry. At the end of December two Tu-160 Russian strategic bombers, an An-124 transport plane and a long-range I-62 aerospace aircraft were sent to participate in military exercises to Venezuela as a clear demonstration of support.

After the escalation of the political crisis in Venezuela (a new wave of mass demonstrations against the Maduro regime began on 21 January 2019, and two days later Guaidó declared himself interim president), the Russian authorities decided mainly to employ rhetorical support for the Maduro regime, refusing to recognise Guaidó. At the same time, Russia once again accused the US of attempting a coup.

Independent Russian and Western media have pointed out that the Kremlin has not limited itself to declarations alone, and behind the scenes it is trying to support the regime with concrete actions. By following the flights of aircraft between Russia and Venezuela, they claim that Russia has been engaged in the export and sale of gold belonging to the Venezuelan treasury, among other moves; a group of Russian mercenaries has also allegedly been sent to Venezuela. The Russian government has denied these reports.

The crisis's international context

In contrast to Russia, most Western countries and many Latin American states have recognised Guaidó as interim president of Venezuela until fair elections are held. Moreover, the US has decided to extend its sanctions against Caracas, primarily cutting off the Maduro regime's income from the crude oil supplied to the US (the money may now only be transferred to institutions controlled by Guaidó). Although more and more Venezuelan oil has gone to China and Russia in recent years (primarily as repayments for loans), in 2018 it still received around 75% of its revenues from the export of Venezuelan oil to the US.

So far China's position on the Venezuelan crisis has coincided with that of Russia, in consistently supporting Maduro. However, despite its declared support for the regime, Beijing's top priority is primarily to minimise its economic losses and obtain guarantees for the repayment of its loans to Venezuela. China, like Russia, invested heavily in Venezuela under Chavez and Maduro. For Beijing, which is an importer of crude oil, an important element of cooperation with Caracas was the expectation that it would gain access to Venezuelan oil. The total Chinese financial support for Venezuela is estimated at over US$60 billion, but according to press reports, around US$45 billion of its liabilities remain unpaid. That is why Beijing fears Moscow's actions, which could lead to the lasting destabilisation of Venezuela. According to unofficial media reports, representatives of Guaidó have been holding talks with Chinese diplomats in Argentina.

Guaidó has officially declared that under his rule Venezuela will respect all its international obligations and open up to foreign investment. These declarations were mainly targeted at Russia and China, and were aimed at convincing these countries that regime change need not adversely affect their interests.

Outlook

The Kremlin would like to defend Maduro's regime; however, serious doubts about whether the current government could continue to rule in the face of internal and foreign opposition have discouraged Moscow from taking decisive action in this direction. This is particularly so because they could lead to the permanent destabilisation of the situation in Venezuela, which in turn would strike at Chinese interests, possibly leading to tensions between Moscow and Beijing.

The Kremlin has therefore adopted a wait-and-see attitude, and is most likely using the time to protect its own interests, regardless of developments in Venezuela. The optimal scenario for the Kremlin is still for the current regime in Venezuela to remain in power, and so far Russia has not abandoned this plan. However, it is likely that if the scales tilt toward victory for Guaidó, Russia will seek to obtain guarantees for its own interests in Venezuela, in exchange for its consent to Maduro's departure. Therefore, if the rumours that Russian fighters have been sent to Venezuela are true, then their job is most likely to protect Maduro himself or evacuate him from the country.

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