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## After Chavez's Death: Is Russian Presence in Venezuela at Risk?

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The death of Venezuelan President Hugo Chávez on March 5, the same day that Soviet premier Joseph Stalin expired sixty years prior, raises questions about the continuation of the warm ties between Moscow and Caracas.

Since 2005, the two countries signed multibillion-dollar contracts mostly in the armament and energy fields. Russia also granted Venezuela several loans totaling more than US\$ 6 billion, again, mostly to buy Russian arms.<sup>1</sup>

Russian President Vladimir Putin, who developed a close friendship with Chávez, expressed "confidence that Russia and Venezuela would continue on this path of strengthening and developing relations".<sup>2</sup>

### Russian Contracts in Jeopardy

Russian leaders fear losing part of the contracts previously signed with Venezuela, especially in the energy sector. Russian oil companies heavily invested in several projects in Venezuela's tar sands. Russian oil companies have already paid the Venezuelan government over US\$ 1 billion in bonuses just to work there, and their long term

total investment could reach US\$ 40 billion.<sup>3</sup>

Although Russian oil companies have felt the pain to finance their huge investments at home, especially in the Arctic shelf, economics have not been the only reason behind these contracts. Personality also played a role. These projects have been signed by Igor Sechin, the powerful chairman of Rosneft and a close Putin ally, who established friendly relations with Chávez. Moscow's relations with Caracas relied completely on Chávez personally masterminding agreements signed with Russian companies. The strengthening of economic relations between Venezuela and Russia were mainly based on anti-US rhetoric. Now that he is gone, time ticks against Russia.

Chávez left Venezuela with a high level of corruption and bureaucratic inefficiency. In 2012, the state budget deficit amounted to 20% of gross domestic product (GDP) while oil price per barrel averaged US\$ 110. Nicolás Maduro, Chávez's hand-picked successor, and the favorite to win next April 14 election, will be under pressure to improve

1 See Vladislav Fedotkin, "Venezuelan Politics May Blow Cold on Russian Contracts" (*RIA Novosti*, 6 March 2013).

2 "Putin Reaches Out to Venezuela After Death of 'Close Friend' Chavez" (*The Moscow Times*, 6 March 2013).

3 In September 2012, state-owned Rosneft and her Venezuelan counterpart PDVSA created a joint venture (holding respectively 40%-60%) to develop the Carabobo-2 heavy oil field in the Orinoco basin. Under the deal, Rosneft paid US\$ 1.1 billion to gain access to the field and provided PDVSA with a US\$ 1.5 billion loan for five years. Since 2009, in the same basin, Rosneft is also participating in a PDVSA-led consortium with other Russian companies (Lukoil, TNK-BP and Gazprom Neft) to work on the Junin-6 block.



the economic situation, which could force him to adopt a more pragmatic approach and turn to the United States and China for large investments plans and technology transfers. US oil companies, eager to re-enter the Venezuelan market, will no doubt rush to PDVSA headquarters in Caracas with lucrative alternatives to Russian companies as the later lag behind in terms of finance and innovation. Since 2005, military and technical cooperation also expanded quickly. After Washington refused to provide the Venezuelan army with spare parts, Putin and Chávez signed several contracts amounting to US\$ 11 billion, of which US\$ 6.2 billion were financed with Russian credit lines, but only US\$ 6 billion were fulfilled. Henrique Capriles, the opposition candidate and Maduro's main challenger, who ran against Chávez in October 2012, has already declared that he will cease purchasing Russian weapons, if he becomes President. And Maduro's election won't guarantee continued high level of military cooperation with Russia, given the country's dire economic situation and the insufficient stock of currency reserves.

### Toward a Pragmatic Relation

Still, Russia must capitalize on its friendly ties with Venezuela during the thirty-day transition period between Chávez's death and the next election, to secure its contracts. The Kremlin envoys should meet politicians across the spectrum; it would be especially beneficial to court favor with opposition candidate Capriles.

Going forward, Moscow must adopt a more pragmatic and broad approach with Caracas as the emotional relation irreparably disappeared with Chávez's last breath.

Russia's focus on top leaders' relations makes sense but doesn't create a solid base for long-term cooperation. By contrast, China has adopted large-scale aid programs supported by important Chinese communities brought to

emerging countries to fully participate in local lives, like they do in Venezuela. This approach is obviously less vulnerable to regime change and explains why Chinese business is steadily developing throughout emerging markets.

Unfortunately, after the demise of the Soviet Union in late 1991, Russia ceased all the large-scale aid programs with its Cold War allies, including Cuba and Vietnam.

And, from the beginning of the 2000's, the Kremlin has busied away with regaining Soviet prestige. Russian economic recovery driven by high commodity and energy prices enabled the country to flex muscles in the international arena. In 2005, Russia started building up ties with Latin America through military contracts with anti-US governments in Venezuela, Bolivia, Ecuador, Peru and Cuba, in order to counter the growing US presence in the former Soviet states.<sup>4</sup> The Russian return to Latin America was aimed at shaping a multipolar world where Russia could play a preeminent role. Venezuela, like Cuba in the 1960s, was supposed to be the pivot of Moscow geopolitical policy in the region.<sup>5</sup>

But now that the Chávez era is over, Russia must rethink all its Latin America policy in order to keep a foothold in the region. Russian large-scale aid programs to Venezuela and Cuba should be an immediate priority.

Finally, the premature death, even if widely predictable, of flamboyant Venezuelan leader will bring more competition between foreign powers eager to tap promising oil reserves.<sup>6</sup> The United States, which seeks to free itself of Middle East oil in the next 10 to 15 years, will continue

4 Stephen Blank, "Russia in Latin America: Geopolitical Games in the US's Neighborhood" (IFRI, Russia/NIS Center, No. 38, April 2009).

5 Philippe Conde, "Le retour de la Russie dans les affaires mondiales" (AGIR, No. 45, February 2011).

6 Venezuelan recoverable reserves are estimated at nearly 300 billion barrels against 265 billion in Saudi Arabia and less than 100 billion in Russia.

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