

“A Way Forward for Venezuela: The Humanitarian, Diplomatic and National Security Challenges Facing the Biden Administration”

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Chairman Sires, Ranking Member Green, distinguished members of the Subcommittee, it is my privilege to address you today on the state of Venezuelan foreign relations and its short- and long-term effects on United States national security policy.

Venezuela is in the midst of one of the worst economic contractions ever recorded<sup>1</sup>—among the largest ever in Latin America. Because of that, the Maduro dictatorship continues to lean on a small group of states inside and outside of the region to remain in power. China, Russia, Cuba, Turkey, and Iran have all played important supporting roles for the regime—of course, to varying degrees. These countries help Nicolás Maduro bypass U.S. sanctions to keep the Venezuelan economy muddling through and provide technical assistance to stave off internal and external threats.

My testimony will focus on Russo-Venezuelan relations, but it is important to point out that Russia is just one of a handful of countries vital to Venezuelan domestic and foreign policy interests. The considerations binding Russia, Venezuela, and the others are far less ideological. Instead, these countries are tied together by common authoritarian political structures and economic and political opportunism. Furthermore, these countries all share antagonistic relationships with the United States. That is, regime survival combined with our policy positions, for better or worse, encourage these authoritarian countries to travel together. These countries also overwhelmingly prioritize their own survival well above their relationships with Venezuela. That leads me to conclude that these relationships, Russia-Venezuela included, are largely transactional and vulnerable to fracturing.

The question before the House today is not whether the Venezuelan government is a repressive and corrupt authoritarian regime. That is clear. Rather, what can the United States do to alleviate the ongoing humanitarian crisis, regain influence on the ground, displace our geopolitical rivals, aid in the restoration of democratic governance, and help pave the way for a prosperous country for the Venezuelan people.

The Russo-Venezuela relationship has evolved a great deal since former Venezuelan President Hugo Chávez and Russian President Vladimir Putin forged ties during the former’s two visits to Moscow in 2001. Putin saw tremendous economic and political opportunities in Venezuela while Chávez sought to diversify its foreign relations away from the United States. In subsequent years,

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<sup>1</sup> Anatoly Kurmanaev, “Venezuela’s Collapse Is the Worst Outside of War in Decades, Economists Say,” *New York Times*, May 17, 2019. <https://www.nytimes.com/2019/05/17/world/americas/venezuela-economy.html>

Russian companies like Rosoboronexport, Rosneft, and Gazprom invested billions into Venezuela, largely focusing on arms and energy deals<sup>2</sup>. Chávez also offered Russia political and military access on the ground in Venezuela. In fact, much of the surge in Russian-Venezuelan engagement occurred during Maduro's tenure as Chávez's Minister of Foreign Affairs from 2006 to 2013. After ascending to office in 2013, Maduro sought to leverage his relations with Russia, and others, to stave off challenges from internal political opposition, offset the massive amount of money siphoned through wide-spread corruption, and to mitigate the economic death spiral that accelerated shortly after he took office.

### Characteristics of the Russo-Venezuela Relationship

Today, most experts would agree that Russia's direct business activities in Venezuela have not yielded the desired return on investment, though this view may overlook significant indirect economic and political benefits derived by this Russian investment. Russia still maintains important economic interests in Venezuela, namely energy infrastructure and enduring arms contracts. However, the lack of resources has forced Russian leadership to seek out political and geopolitical returns on investment in Venezuela. Russia is leveraging its access to maintain a geostrategic footprint near the United States, portray Russia as a global power, unsettle American policymakers, undermine western values, and score political points at home for Putin.

Russia is one of several countries vying for access to Venezuela's large proven oil reserves. Some believe that Russia's state owned (40.4%) oil company Rosneft has invested nearly \$10 billion in Venezuela since 2010. U.S. sanctions against Rosneft in 2020 forced their Chief Executive Officer Igor Sechin to offload the company's production, services, and trading assets to an entity entirely owned by the Russian government.<sup>3</sup> The move was largely seen as a means of bypassing U.S. sanctions. Still, there were strong indications that Rosneft and other Russian companies active in the Venezuelan energy sector were taking huge losses well before U.S. sanctions against Rosneft. Still, Russia owns significant energy assets in Venezuela including nearly 81 billion barrels of proven reserves via its joint venture with Petróleos de Venezuela, S.A. (PDVSA), and chooses to leave it in the ground.

One theory is that Russia is content with locking up Venezuelan oil in the ground and reducing global supply so that it can fetch a higher price for its own heavy crude on the global market. Russia exports roughly 9 to 10 million barrels of heavy crude oil per day, so a five-dollar increase in price per barrel would generate an additional \$50 million a day for Russian exporters. Moreover, as the age of the hydrocarbon seems to be winding down, a barrel not produced and sold today may end up never being produced and sold in the future. Thus, Russia may be deriving indirect economic benefits from a deteriorated Venezuelan oil industry made worse by U.S. sectoral sanctions. In 2020, Russia oil exports to the U.S. hit a 16-year high, solidifying its place as the second-largest

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<sup>2</sup> Vladimir Rouvinski, "Russian-Venezuelan Relations at a Crossroads," *Wilson Center Latin American Program*, February 2019. <https://www.wilsoncenter.org/publication/russian-venezuelan-relations-crossroads>

<sup>3</sup> Isabelle Khurshudyan and Anthony Failoa, "Russian Oil Giant Rosneft Pulls Out of Venezuela Amid U.S. Squeeze on Maduro," *Washington Post*, March 28, 2020. [https://www.washingtonpost.com/world/europe/venezuela-maduro-russia-rosneft/2020/03/28/0d38ce4a-7121-11ea-a156-0048b62cdb51\\_story.html](https://www.washingtonpost.com/world/europe/venezuela-maduro-russia-rosneft/2020/03/28/0d38ce4a-7121-11ea-a156-0048b62cdb51_story.html)

exporter of crude to the United States. Industry experts argue that the spike in Russia imports in the U.S. is driven in part by U.S. sanctions against PDVSA.<sup>4</sup>

Oil and gas are not the only drivers of Russia's economic interests in Venezuela, nor have they been substantial profit centers for Russian firms. Military sales are also an important part of Russia's broader economic interests in Venezuela. Some estimate that Russia sold nearly \$20 billion in military equipment to the Venezuelan military on credit since about 2005. This includes Sukhoi fighters, the S-300 surface-to-air missile system, T-72M1 tanks, an array of other transport vehicles and helicopters, as well as small arms.<sup>5</sup> One profitable aspect of Russia arms deals is the long-term maintenance packages that accompany military technology transfers. These contracts require all maintenance work to be done by Russian firms or contractors. This contributes to the persistent flow of Russian military personnel to Venezuela.

Building on the economic benefits of Russian military sales to the Venezuelan military, Russia is establishing important military-to-military relationships with Venezuela that go beyond economic gains. Russia provides technical assistance to Venezuelan military leaders and offers professional military educational opportunities in Russia for Venezuelan military personnel. Additionally, it is highly likely that Russia has a formidable intelligence footprint in Venezuela. Russia has long been accused of masquerading Russian intelligence operatives as official Embassy staff. Although it is difficult to estimate how deep this aspect of the relationship goes, or whether these relationships will be enduring, Russian military and intelligence presence in Venezuela is not in our national security interest. Still, we assess the strategic interest for Russia is not to directly challenge the U.S. military, but to underscore its presence as a relevant power in the Western Hemisphere. Small-scale military deployments are further evidence of the mindset in Moscow to focus on low-cost actions intended to irritate the U.S., but not provoke an escalatory response. Such deployments are meant to project power, unsettle the U.S., sow distrust in the region, all while trying to turn a profit.

For Putin, the fact that Venezuela is located so close to the U.S. serves as an important incentive to deepen Russian influence and undermine U.S. policy. Russia finds political value in undermining U.S. interests in the Western Hemisphere, whether by supporting American adversaries, promoting instability in Colombia, or attacking the U.S. brand by demonstrating the ineffectiveness of U.S. sanctions policy. Russia views its geostrategic access in Venezuela as a counter to U.S. presence in Eastern Europe. In fact, rumors have been floating around for years that Russia would trade its footprint in Venezuela for the removal of the U.S. footprint in Ukraine. It is no coincidence that as the U.S. was showing support for the Georgia government in 2008, Russia deployed strategic bombers and naval assets to Venezuela as part of a joint military

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<sup>4</sup> Tsvetana Paraskova, "Russia's Oil Product Exports to U.S. Jump to 16-Year High," *Oilprice.com*, August 11, 2020. <https://oilprice.com/Latest-Energy-News/World-News/Russias-Oil-Product-Exports-To-The-US-Jump-To-16-Year-High.html>

<sup>5</sup> "Rosoboronexport Supplied the President of Venezuela With a Full-Scale Simulator of the Su-30MK2 Aircraft," *Rostoc.ru*, November 28, 2019. <https://rostec.ru/en/news/rosoboronexport-supplied-the-president-of-venezuela-with-a-full-scale-simulator-of-the-su-30mk2-airc/>

exchange.<sup>6</sup> A decade later, Russia deployed two nuclear-capable bombers to Venezuela in a likely attempt to flex its muscles in response to U.S. backing for Ukraine.

Russia uses Venezuela to demonstrate its global reach and bolster its reputation as a world power. In 2014, former President Barack Obama famously referred to Russia as a regional power.<sup>7</sup> This enraged Putin, who sees Russia as a major global power, and is desperate to be recognized by other players as equal to the U.S. in the international arena. This is consistent with Putin's statements about returning Russia to greatness. Venezuela is merely an opportunity to demonstrate its ability to influence beyond its region. In addition, Russia, like China, is interested in undermining western democratic world order and forcing acceptance of its authoritarian model<sup>8</sup>.

Recognition is vitally important to Putin at home as well. There is significant domestic value for Putin to aggressively assert Russia's presence in Latin America and elsewhere around the world. At home, Putin's popularity is fragile, and the Russian economy is struggling, so he seeks to score points in his handling of Russian foreign policy and his confrontational approach to the United States.

### **Undermining U.S. Policy in Venezuela**

The Russo-Venezuela relationship remains important to the near-term survival of the Venezuelan regime. The same can be said of Venezuela's relations with China, Iran, Turkey, and Cuba. The economic pressure created by U.S. sanctions has forced Venezuela to lean on its allies to help circumvent the economic impact – the dominant feature in U.S. policy toward Venezuela<sup>9</sup>. At different times, Russia, China, and Iran have served as intermediaries allowing Venezuelan oil and gas to be extracted, refined, and traded (mostly with China as a means of paying down debt). Russia, Iran, and Turkey have also helped Maduro around sanctions by extracting gold from Venezuelan mines.

Furthermore, Russia, Cuba, and Iran are leveraging their decades of experience in living with U.S. sanctions to coach Venezuelan leadership. The longer the Maduro regime can survive under "maximum pressure", the more U.S. credibility is undermined. At this point in time, Maduro is not just surviving, but beginning to recover. The dollarization of the economy appears to be providing temporary economic relief. Oil production is back up, and the refineries have been restarted. This should ameliorate the primary recent threat to the regime – the gasoline and diesel shortages.

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<sup>6</sup> Simon Romero and Clifford J. Levy, "Russia and Venezuela Confirm Joint Military Exercises," *New York Times*, September 8, 2008. <https://www.nytimes.com/2008/09/09/world/americas/09venez.html>

<sup>7</sup> Julian Borger, "Barack Obama: Russia Is a Regional Power Showing Weakness Over Ukraine," *The Guardian*, March 25, 2014. <https://www.theguardian.com/world/2014/mar/25/barack-obama-russia-regional-power-ukraine-weakness>

<sup>8</sup> Alexander Vershbow and Daniel Fried, "How the West Should Deal with Russia," *The Atlantic Council*, November 23, 2020. <https://www.atlanticcouncil.org/in-depth-research-reports/report/russia-in-the-world/>

<sup>9</sup> Matt Ferchen, "China-Venezuela Relations in the Twenty-First Century: From Overconfidence to Uncertainty," United State Institute of Peace, September 2020. <https://www.usip.org/publications/2020/09/china-venezuela-relations-twenty-first-century-overconfidence-uncertainty>

It would be a mistake to think of Russia's actions as altruistic, despite being cloaked in the primarily economics-based policies that have defined its 21<sup>st</sup>-century relationship with Venezuela. One of Russia's main objectives is to undermine liberal democracy in the Western Hemisphere by throwing its support behind a friendly authoritarian regime. Building a relationship with Maduro further demonstrates Moscow's desire to thwart U.S. policy and influence in Latin America while showcasing its own ability to play a significant role in a country just 1,500 miles off the U.S. coast.

Keeping Maduro in power is important in the current Russian policy model, and the Russians believe they won the first round in that struggle by ensuring the authoritarian regime remains despite efforts by the U.S. Internally, though, some in Russia are concerned about the long-term prospects of what might happen to Venezuela's government. When it transitions back to a democratic political regime, many of Russia's relationships and agreements within the old state will likely not be viewed as legitimate or legal. Russia is paying close attention to Venezuela's Constituent National Assembly's September 2020 Anti-Blockade Law (Ley Antibloqueo). The law gives Maduro the authority to privatize state-owned strategic assets. Once these assets are gone, they may be impossible to recover, even if the opposition takes power. This could lead to even greater access for Russia, China, and other American competitors. Moreover, the law will provide additional tools for Maduro to weather a U.S. policy largely built on sanctions.<sup>10</sup>

## Policy Recommendations

So, what's the way forward in Venezuela? To be clear, there is no easy path to transition in Venezuela and there are severe limitations to what the U.S. can do now. Still, I think there are meaningful actions that we should be thinking about as the situation continues to evolve.

First, we should reevaluate our sanctions and consider doubling down on targeted sanctions against individuals and reversing broader sanctions that may be hurting our national interests and the interests of the Venezuelan people. There is good reason to believe that some of our sanctions are undermining our long-term domestic and foreign policy objectives in Venezuela. Our sanctions should not exacerbate the ongoing humanitarian crisis, erode American reputation among the masses in Venezuela, or work in the interests of our global rivals. Based on my research, many Venezuelans seeking change initially welcomed sanctions. That sentiment is eroding because of sanctions' inability to effect regime change as advertised. Furthermore, the sanctions should not undermine our ability to build vital influence on the ground and compete with Russia, China, and other competitors already entrenched in Venezuela.

Second, we must find ways to close important pressure release valves or else the sanctions will do little to effect meaningful change in Venezuela. If the dictatorship can leverage its allies and use illicit trafficking proceeds to subsidize its struggling Venezuelan economy, meaningful change will remain elusive. The U.S. should find unique ways to pressure Venezuela's allies into supporting

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<sup>10</sup> De la Cruz, Antonio, "The Anti-Blockade Law: A Change in Venezuela's Economic Model," *Center for Strategic and International Studies*, December 2, 2020. <https://www.csis.org/analysis/anti-blockade-law-change-venezuelas-economic-model>

the will of the Venezuelan people, rather than exploiting Venezuela for their own political and economic interests. That includes a return to free and fair elections in Venezuela.

The U.S. should work with regional and global partners to counter illicit trafficking flows moving through Venezuela. The U.S. tends to focus on countering illicit flows heading south to north into the United States. We should emphasize efforts to cut off Venezuela's access to illicit markets moving east to west the same way our sanctions have attempted to cut off its licit economy from the global economy. China and Russia have, in the past, supported counter illicit trafficking efforts in Latin America. This could be one avenue of engagement.

Third, we should consider ways to reestablish some diplomatic and economic access in Venezuela. I am not calling for reestablishing an embassy without evaluating important concessions from the regime. I am suggesting, however, that we consider an Interest Section akin to the U.S. Interest Section at the Swiss Embassy in Cuba. The Interest Section can serve to both aid our understanding of realities on the ground and advance U.S. foreign policy objectives when opportunities arise.

We should also create space for the American private sector to outcompete Russia, China, and others taking advantage of the United States' absence. There is a clear preference for American businesses over Russia, China, Iran, and Turkey. Unleashing the American private sector could provide consequential long-term influence that could aid in ushering in democratic transition. The U.S. could consider the issuance of specific licenses to American companies that engage in oil for food/medicine, rather than removal of sectoral sanctions in the near-term. This would give the American private sector some access on the ground and help alleviate the humanitarian crisis.

Fourth, we should bolster the governance capacity and reassure our partners in the region—especially Venezuela's neighbors Guyana, Colombia, and Peru. The U.S. should reinforce the democratic institutions and values that create resiliency against Russian and Chinese efforts to undermine democratic governance, not just in Venezuela but across Latin America and the Caribbean. Our partners need to know we are there.

Finally, the UK, France, and Canada all maintain diplomatic relations. We should work more through our allies, as well as multilateral organizations like the Organization of American States, to maintain pressure on the regime and serve as potential channels for communications—akin to how Canada helped the U.S. reestablish diplomatic channels with Cuba.

The fact that this is among the first hearings of the 117<sup>th</sup> Congress—and the first for this subcommittee—is a testament to the importance of Venezuela to the United States and our commitment to the Venezuelan people. As I said before this subcommittee in 2019, nature abhors a vacuum. If we don't have a presence, then China, Russia, Iran, and others antithetical to our interest will be more than happy to fill the void. Again, thank you for this amazing opportunity and I look forward to your questions.