

Venezuela's Collapse Frays Its Economic Ties With Russia



President Nicolás Maduro of Venezuela, center left, meeting with President Vladimir V. Putin of Russia, center right. CreditCreditPool photo by Maxim Shemetov

MOSCOW — In his toughest moments, Venezuelan President Nicolás Maduro has turned to Russia for support.

When the United States sanctioned the Venezuelan energy industry in January, Russia's oil firm Rosneft helped to divert its oil exports to Asia. And when rumors of an armed American intervention reached fever pitch in March, two airplanes with Russian military technicians landed in Caracas — a reminder Russia was on Venezuela's side.

Yet there is growing evidence that, beyond these high-profile gestures with limited effect on the ground, economic ties between Venezuela and Russia are fraying. Russian banks, grain exporters, even weapons manufacturers have all curtailed business with Venezuela, driven away by the very economic collapse

they intended to help Russia's South American ally withstand.

"Russia's economic ties to Venezuela have really slowed down in the past few years," said Maximilian Hess, a fellow at the Foreign Policy Research Institute in London. "The policies today are really low-cost, but they get a lot of geopolitical play."

Russia's public display of support came at a number of crucial moments since the opposition leader, Juan Guaidó, proclaimed himself the country's interim president in January, challenging Mr. Maduro's grip on power and plunging the country deeper into political crisis. Russia's support allowed Mr. Maduro to claim the backing of a powerful ally and to maintain critical support in the military and the ruling party.

But in economic matters, Russian state-owned companies are cutting back on the business they do with the bankrupt nation to protect their bottom line, showing the limits of President Vladimir V. Putin's strategy of propping up an ally and antagonizing the Trump administration. The Russian government has not filled the breach, refusing to issue Venezuela new credit lines, to commit to new investments or even to provide relief on existing debt to ease Mr. Maduro's battle with the opposition.

As Venezuela's economy crumbles, gas shortages leave drivers waiting for hours to fill up their cars. CreditMeridith Kohut for The New York Times



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The Kremlin's preference for symbolic displays of support instead of long-term investments in Venezuela is partly tied to Russia's own economic woes. Russia's five-year stagnation has led to the biggest outbreak of protests since 2013, to an exceptionally steep decline in Mr. Putin's trust ratings and to growing public aversion to costly foreign adventures, according to Russian polls.

Russia exported just \$36 million worth of goods to Venezuela in the first four months of this year, less than half the amount it sent three years ago, according to Russian customs data.

Russian wheat sales to Venezuela, which Mr. Maduro touted as the replacement for American grain, plummeted 60 percent, to 187,000 tons, during Russia's agricultural export season ending in April, compared with the same period a year earlier, the customs data shows. These amounts cover only a tenth of Venezuela's annual wheat demand.

Moscow's largest banks have largely shunned Mr. Maduro's attempts to move Venezuelan government accounts to Russia to escape American sanctions,

according to two people knowledgeable about the matter who spoke on condition of anonymity because they were not authorized to speak to the press. The widespread use of the dollar in the Russian financial system means the risk of American sanctions greatly outweighs potential earnings from new Venezuelan business, they said.

None of the top 15 Russian banks had meaningful loans to Venezuelan entities as of April, according to their regulatory filings. State-controlled Gazprombank, which used to be one of the main European bankers for the Venezuelan national oil company, Pdvsa, in April erased nearly all of its Venezuelan credit portfolio after having quit a joint banking venture with Mr. Maduro's government, the filings show.

Even Russian weapons trade with Venezuela, the cornerstone of the countries' economic relations, has been hit by Mr. Maduro's financial woes.

Russia's industrial conglomerate RosTec, which accounts for the bulk of the country's defense exports, has reduced its exposure to Venezuela because of unpaid invoices, according to two people close to the company who discussed national security matters on condition of anonymity. The company has chosen not to renew some weapons maintenance contracts and freeze other projects, they said.



Former President Hugo Chávez of Venezuela, center, applauding a worker during a visit to a weapons factory in Russia in 2006. The multibillion-dollar deals for Russian weapons he signed are long gone. Credit Marcelo Garcia/Agence France-Presse — Getty Images

This includes the Kalashnikov machine gun factory in the central city of Maracay, which remains unfinished 12 years after the start of construction.

Arms sales can be a politicized business, but it is still business, and it has to make economic sense, said one of those familiar with RosTec.

A RosTec spokeswoman said the company's staff in Venezuela has remained unchanged in recent years and its technicians come and go according to its projects' needs.

The multibillion-dollar deals for Russian weapons signed by Mr. Maduro's charismatic predecessor, Hugo Chávez, are long gone. In the past two years, Russia exported \$1 million worth of goods to Venezuela under the "secret" customs code that includes military and security equipment, according to Russian customs.

“We absolutely, officially have sold weapons to Venezuela,” Mr. Putin told reporters last week. “We have not done it for quite a while now.”

Though limited, Russia’s economic help did allow Mr. Maduro to maintain some revenue flow amid tightening American sanctions. The Moscow-based bank Eurofinance Mosnarbank, which is jointly owned by the Russian and Venezuelan governments and is under United States sanctions, continues to process payments for Pdvsa, according to bank wire receipts seen by The New York Times.

The Russian government responded to American sanctions against the bank in March by taking control of the lender.



The Pdvsa petroleum complex, José Antonio Anzoátegui. Venezuela’s oil output plummeted 35 percent since the American sanctions in January, one of the steepest declines of production in modern history. Credit The New York Times

Despite these moves, Russia remains overtly supportive of Mr. Maduro’s administration, and is part of his major remaining economic and political bulwark.

“Our relations with Venezuela are of strategic nature,” Moscow’s ambassador to Caracas, Vladimir Zaemsky, said after the arrival of two Russian military planes in

Venezuela in March. “We’re prepared, as always, to provide complete support to the lawful government of Venezuela and the Venezuelan people.”

RosTec’s inauguration of a helicopter training center in Venezuela in late March provided an important public relations boost to Mr. Maduro.

Rosneft, in particular, has helped Pdvsa to redirect some of its oil exports, targeted by American sanctions, to Asia. The Russian firm bought the oil in five of seven tankers that left Venezuela in the first half of May, according to Pdvsa data.

Rosneft, which has taken on the risky but lucrative role of Pdvsa’s partner of last resort, has said its operations in Venezuela are strictly commercial and compliant with American sanctions. But even it has refrained from putting new money into Venezuela. The company’s outstanding loans to Pdvsa have fallen by more than half in the past year to \$1.8 billion, according to its financial statements.

And Rosneft’s lifeline has not been enough to prevent the collapse of Venezuela’s already struggling oil industry. The national oil output plummeted 35 percent since the American sanctions in January, one of the steepest declines of production in modern history, according to estimates by the Institute of International Finance.

“If I was a Venezuelan general debating my future, I wouldn’t count on Russia coming to the rescue,” said Mr. Hess.

Anna Mikheeva contributed reporting.

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