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The Russia–Venezuela Axis: Using Energy for Geopolitical Advantage

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When Venezuela's President Hugo Chávez touches down in Moscow on July 22 to meet with the duumvirate of Prime Minister Vladimir Putin and President Dmitry Medvedev, he will be ready for more than the usual diplomatic photo-op. This odd trio will be well-positioned to plan substantial international mischief.

A Russian–Venezuelan axis is a 21st-century throwback to the Cold War Soviet–Cuban alliance. Such a partnership bodes ill for energy security, for freedom in both nations, and for the Western Hemisphere.

Despite differences in culture, language, and geography, the rulers of Russia and Venezuela are increasingly rejecting civil society and narrowing political space in their respective countries. They drive out foreign investors and erode market mechanisms. Both governments have mounted sustained attacks on the rule of law in an effort to exert control over energy resources, excessively strengthen the state, and expand geopolitical clout. Putin and Chávez are promoting an alternative vision to that of the U.S. and the West and are comfortable with the progress they are making toward this end.

Redistribution of Global Power. The Russia–Venezuela condominium is emblematic of geopolitical forces rising to challenge U.S. leadership and influence. Chávez and the Russian duo want to redistribute global power as expediently as possible. In pursuit of this “world without the West,” the two governments are dumping the dollar in favor of the

Euro during energy transactions, using energy as a geopolitical weapon, and calling for the creation of “new economic and financial institutions” to supplant the post–Bretton Woods order. They also are cooperating in launching a natural gas OPEC-style cartel, led by Russia.

For Russia, this new relationship is part of a larger effort to recover its great power status lost as the result of the Soviet Union's precipitous collapse. Chávez, on the other hand, seeks to realize Simón Bolívar's dream of a united Latin America capable of challenging the “Colossus to the North.” Such geopolitical ambitions reflect the buoyancy found in oil- and gas-rich nations riding the crest of \$135 per barrel oil.

Russia and Venezuela, together with Iran, are among the trend-setters in the democratic roll-back taking place since the late 1990s, especially in petro-states. The rise of oil prices has accelerated this process and helped precipitate the rise of statism and the decline in democratic governance, while energy revenues provide the means to buy off political opponents and the media, build up internal security forces, and insulate regimes from any domestic and international criticism.

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While Russia is supporting Iran—both diplomatically and militarily—and buying European politicians with Gazprom jobs, Chávez is working to undermine stability in the Western Hemisphere. For instance, Chávez provides covert support for the narco-terrorism of the FARC, suitcases of clandestine cash for political candidates, friendship with Hezbollah, and a permissiveness or inattention that has allowed Venezuela to become a major transit point for cocaine.

Sprawling and Increasingly Statist Economies. Chávez and the Putin-Medvedev duumvirate both preside over sprawling and increasingly statist economies, gorged upon freshly nationalized industries and deeply dependent on resource nationalism. Russia has forced Western energy companies out of massive development projects in Siberia and the Far East, pressured British Petroleum to sell a major stake in a large Siberian gas field to Gazprom, and squeezed Royal Dutch Shell in the giant Sakhalin Island project. The current dispute between BP and Russian TNK—the only remaining major oil venture in Russia with 50 percent foreign ownership—is also consistent with Russia’s continuing commitment to de-privatization.

Yet Russian state control is not limited to natural resources. State control has also been mounting over metals, the arms sector, and the automotive industry. Moreover, despite resistance within the Kremlin, President Medvedev has just approved the transfer of the state’s assets in 426 companies to a single “national champion”—state-owned Rostekhnologii or Russian Technologies. As it so happens, Rostekhnologii is run by Sergey Chemezov, Putin’s intelligence community comrade. This transfer of assets and the ongoing dispute between British Petroleum and Russian TNK directly contradict Medvedev’s rhetoric of liberal economics and legal reform.

In the last 18 months, Chávez has also increased the tempo of nationalizations with several “my way or the highway” deals. By allowing for increased importation, skyrocketing oil prices mask—temporarily—economic mismanagement and the deeper shortcomings of anti-market economic policies. In modern-day Venezuela, crime, corruption, and

inflation rise and while the quality of life of the average citizen declines or stagnates.

Crony capitalism, coupled with lack of transparency and accountability, makes life difficult for the ordinary Russian or Venezuelan. Scarce wonder that, according to The Heritage Foundation’s *2008 Index of Economic Freedom*, Russia stands 134th out of 157 ranked nations, while Venezuela has descended to the bottom 10 at 148th out of 157.

Energy as a Geopolitical Weapon. The Kremlin is skilled at using energy as a foreign policy tool. It has cut off supplies to six countries over the last seven years and uses energy dependence as leverage to divide Europe on key issues. Most recently, after the signing of an agreement between Prague and Washington for an anti-missile defense radar station, a Russian company sharply reduced the flow of oil to the Czech Republic.

Mimicking the Russians, Caracas relishes using oil for geopolitical leverage and influence. In recent months, Chávez has bolstered oil subsidies and a financing facility known as Petrocaribe. Using the oil bonanza, Chávez has pledged assistance that eclipses U.S. aid in the Western Hemisphere. Even democratic Costa Rica cannot resist the seduction of relief at the pump.

At the working level, Russia’s energy giant Gazprom and Venezuela’s national petroleum company, PDVSA, are cementing an energy partnership in South America. As the chief of PDVSA recently reported, “We want to make [PDVSA] like Gazprom, but with a social role.” Chávez seeks to deepen cooperation with the Kremlin and its state-run enterprises. He has invited Russian firms to exploit the Orinoco River basin—potentially the world’s largest oil deposit, holding 1.2 trillion barrels of extra-heavy crude. Gazprom is also involved in a proposed Venezuelan initiative to construct an 8,000-kilometer trans-South American gas pipeline that will link Venezuela’s oil and gas fields to Argentina via Brazil, with potential spurs going to Bolivia, Paraguay, Uruguay and Argentina. According to Chávez, these Russian state-run firms are part of the vanguard of the Bolivarian revolution.

Arms sales—which Russia uses to gain friends and influence governments—are key components

of the Kremlin's relationship with Venezuela. Flush with cash, Chávez is buying as much military hardware as possible. For instance, in 2006, Chávez sealed a \$3 billion arms package with Russian state-owned arms trader Rosoboronexport that included 100,000 Kalashnikov AK-103 series automatic rifles, 24 advanced Sukhoi (SU-30) fighter jets, and 53 military helicopters. A Russian Kalashnikov rifle plant and munitions factory should be operational in Venezuela by 2010. Caracas is also interested in Russian air defense systems and diesel submarines.

Chávez increasingly relies on Russia to provide the weaponry he insists is needed to defend Venezuela against the bogey of a U.S. invasion. The July 22 visit will yield more arms, including a possible submarine deal. While Washington tends to focus on Chavez's ties to the FARC or Iran and Hezbollah, Venezuela's rapidly solidifying relationship with Russia opens up previously unexplored avenues for diplomatic, military, and perhaps nuclear cooperation between the two. Whether in Eurasia or the Western Hemisphere, these actors are playing a broad geopolitical game into which they hope to lure China, India, Brazil, and other rising powers.

A Multi-Pronged Strategy. The next administration will have to devote more attention to the Western Hemisphere, as well as to the increasing threat of resource nationalism from Russia, Venezuela, Iran, and other energy-rich countries. Specifically, the next administration must develop a multi-pronged strategy committed to:

- Promoting market access and the rule of law among energy producers;
- Promoting greater cooperation between energy consumers; and
- Developing alternative sources of energy consumers want.

These are trying days for the globe's democracies, yet greater threats were defeated in the past.

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