

Venez-Failia

It seems we cannot escape focusing on the collapse underway in Venezuela and the impact that train wreck is having on the world of oil. Yet, there is one overriding reason why this attention is warranted. Unless international parties are very careful, this one is going to usher in some nasty collisions.

In both my academic and intelligence careers, I spent a fair amount of time considering what happens in so-called “failed states.”

These are countries in which the government has lost three essential ingredients to rule: (1) sovereignty (determined by the application of central law) over the territory within national borders; (2) overseeing a functional domestic economy and fiscal system; and (3) acting as a working member of the international community. Put simply, a failed state has lost the ability to provide either legal or economic protection to its citizens.

Venezuela fell well within that definition some time ago.

Traditionally, a failed state was hallmarked by an internal administrative implosion – figuratively looking like a ball having its air sucked out. That, in turn, produced a power vacuum that tended to suck in both neighboring states and major global players.

As I came to recognize personally during the Cold War, failed states were dangerous as a cause of heightened tensions between dominant powers. Upon occasion, usually through the use of surrogates, that would even extend to hostilities.

More recently, there has been an alternative dynamic developing in which failed states are marginalized rather than targeted by the big boys. But that has not been the case when the states in question have something the major powers cannot ignore.

Like oil.

Monroe Doctrine, Monroe Problems

Venezuela need not be regarded as an emerging fire sale for this to occur. Yes, on paper Caracas has the world’s largest crude reserves and, until a few years ago, was regularly the second largest producer in OPEC (after Saudi Arabia).

But in this situation, there is no 1941 Japan desperately looking for a source of energy. Both primary countries in the current environment – the US and Russia – have ample domestic supply and are two of the three (once again, the other is Saudi Arabia) largest producers worldwide.

Today, my questions have two distinct elements. First, how does the condition and reliability of Venezuelan oil production and exports affect American or Russian market penetration and pricing?

Second, given that oil exports are the dominant driver of Venezuelan revenues, how does the collapse in that sector weaken the Caracas government's position in the Western Hemisphere?

Both elements impact what Washington and Moscow might do. The second also has echoes of how traditional failed states threatened to widen a conflict zone.

Russia continues to support Nicolas Maduro, the holder of the Venezuelan presidency following the last (highly suspicious) election. Maduro was the hand-picked successor of Hugo Chavez. He succeeded to the office after Chavez's death in 2013 and subsequently won a contested election on his own.

On the other hand, the US is backing Juan Guaido. Guaido is the president (i.e., presiding officer) of the National Assembly, the country's legislature that invalidated the election of Maduro. Thereupon, the Assembly invoked a clause in the country's constitution to appoint their presiding officer (Guaido) as national acting president.

To nobody's surprise, Russia and the US have been unable to reach any consensus on what to do. Talks are technically continuing today in Rome, but the announcement on Monday that the two powers have failed to find common ground was expected.

Russian sources have told me that they hardly anticipated a diplomatic breakthrough but used the occasion of talks to provide a very public warning to the US not to intervene militarily. Here, given matters of geography and troop disposition, Washington would clearly have the upper hand, at least initially.

However, aside from a few media pundits, none of my sources (of any political persuasion) inside The Beltway regard an American incursion into Venezuela as a valid option. All of my contacts agree that moving US troops into Venezuela is easy enough, but extricating them would be a nightmare.

Yes, one keeps all options "on the table" in such posturing. But alternatives with no realistic or calculable end games usually are moved to the back of the policy queue.

The danger emerges when events deteriorate a situation beyond initial major power intentions. Venezuela is starting to remind me of the Congo crisis in the early 1960s.

Come On Shake Your Economy, Do The Congo

Then, power vacuums, civil wars, and ethnic unrest led to several African “proxy wars” between Moscow and Washington during the 1960s. CIA and KGB/GRU were active as precipitating actors in all of them.

But none more so than in the Congo, where three contesting presidents clashed, assassinations ensued, and a nation was thrown into an ugly bloodbath. The current Democratic Republic of the Congo (which is neither genuinely democratic nor a republic) still bears the scars of the earlier period.

A few years ago, as part of a government assignment, I was drawn into this ongoing mess. The issue involved a dispute between the DRC and neighboring Uganda over oil rights abutting their border in the lake region sourcing the White Nile. The underlying disagreements had not changed much in fifty years.

Back then the Soviets supported one president (Lumumba); the Americans another (Mobutu). Moscow sent in troops (mostly Cuban) while Washington responded with increased covert operations. One of these operations was the killing of Lumumba.

Matters in Washington reached a head one evening when members of the Congressional leadership forced President Lyndon Johnson to recall regular US troops already in air transit across the Atlantic for deployment to the Congo.

Crises have a way of starting out as small calculated steps only to morph into snowballs racing downhill out of control.

We are at such a juncture today with Venezuela.

Cit-Come, Citgo

That the US and Russia could not agree in Rome is hardly news. Nonetheless, the abortive talks have highlighted one main issue. Central to the disintegration of the domestic economy has been Venezuela’s inability to control the revenue flow from its own oil exports.

And it is of some interest that this issue currently centers on one aspect of that oil control... one on which both

Moscow and Washington can agree.

As I have noted previously in ECRG Intelligence, continuing Russian and Chinese loans to the government in Caracas have resulted in Venezuelan losing control over its oil export revenues. Nonetheless, those loans remain in default.

So both debt holders have moved “upstream” to acquire effective control over Venezuelan oil assets. Among those elements of interest has been acquisition of the crude oil itself. That has set the stage of the latest flash point between Russia and the US.

PDVSA, the Venezuelan national oil company, has confirmed that oil contracted to the US has been redirected to Russian state oil major Rosneft. This is in response to US sanctions, according to my PDVSA contacts.

But the gravamen goes deeper. The oil exports in question are intended for Citgo, the refinery and retail network in the US still technically owned by PDVSA. In addition, much of the PDVSA debt associated with Citgo is already held by Rosneft.

The disposition of that debt has been the source of some concern in Washington. As presently constructed, a Rosneft move to acquire compensation for defaulted credits extended to PDVSA would effectively mean Rosneft would acquire control over assets in the US.

For American policy makers, Rosneft obtaining control over crude oil still under Venezuelan export authority is preferable to the Russian company acquiring US domestic assets (and/or revenue flows from them).

As a result, the Rosneft move has led to a rather muted response from Washington.

Meanwhile, PDVSA has been losing a series of US court challenges on matters ranging from nonpayment to bribery. This is accentuating the crisis, promoting straight seizure of PDVSA assets in the US, and likely will divide American and Russian positions further.

In short, one shot evaded. But there is a barrage forming on the horizon.

About the Author



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