

## The versatile amalgam: Interests and corruption in Russia-Venezuela relations

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### Abstract

The Russia-Venezuela relations are the most controversial of those between Latin American states and extra-regional powers, due to the military-technical nature of its original links its implications for Russian-United States rivalry, and over the hemispheric security and democracy. This article explores these from the role of Russian-Venezuelan corruption as a versatile amalgam within the alliance from 2005 to 2018. Based on a descriptive research design, the systematization of scattered information, and the application of a congruence method, we infer that corruption contributes to improving Russian-Venezuelan political cohesion. Our inference indicates that these ties, in addition to serving Russian-Venezuelan geopolitical interests regarding the United States, constitute a cycle in which political corruption strengthens the alliance, favouring special corporate interests, undermining rule of law, encouraging corruption, and revitalizing authoritarianism in Venezuela. *Keywords:* corruption, international alliances, Russia, Venezuela, Russia-Venezuela relations.

**Resumen:** Una amalgama versátil: Intereses y corrupción en las relaciones ruso-venezolanas  
Las relaciones entre Rusia y Venezuela son las más controvertidas entre los estados latino-americanos y las potencias extrarregionales, debido a la naturaleza técnico-militar de sus vínculos originales, sus implicaciones para la rivalidad ruso-estadounidense, y sobre la seguridad hemisférica y la democracia. Este artículo explora lo anterior desde el papel de la corrupción ruso-venezolana como una amalgama versátil dentro de la alianza entre 2005 y 2018. Basado en un diseño de investigación descriptivo, sistematización de información dispersa y aplicación de un método de congruencia, inferimos que la corrupción contribuye a mejorar la cohesión política ruso-venezolana. Nuestra inferencia indica que estos lazos, además de servir a los intereses geopolíticos ruso-venezolanos con respecto a los Estados Unidos, constituyen un ciclo en el que la corrupción política fortalece la alianza, favorece intereses corporativos especiales, socava el estado de derecho, fomenta la corrupción y revitaliza el autoritarismo en Venezuela. *Palabras clave:* Corrupción, alianzas internacionales, Rusia, Venezuela, relaciones ruso-venezolanas.

## Introduction

The relationship between Vladimir Putin's Russia and the Venezuela of Hugo Chávez and Nicolás Maduro has been one of the most controversial between Latin American states and extra-regional powers. The key feature has been the military-technical link that made Venezuela the main buyer of Russian arms in the Western hemisphere (Sipri 2019). It has also drawn attention as Russian-Venezuelan links have strengthened the resilience of the Maduro government, besieged both internally and externally. Analysis of these links has been dominated by two opposing geopolitical visions: classical geopolitical analysis (Blank 2009; Ellis 2011; da Cruz 2015; Boersner & Haluani 2015; Blank & Kim 2015; Mijares 2017), focused on the structural materiality of the international system, and critical geopolitics, focused on agency factors in the ideological order (Corrales 2009; Raby 2011; Sitenko 2016).

Without denying their analytical utility, these approaches fail to explain the role of transnational corruption in the strengthening of international ties. Studies on international cooperation and alliances have remained oblivious to corruption<sup>1</sup> as a factor in cohesion, due to the difficulties and risks of studying criminal activities in politics. Consequently, research on the Russia-Venezuela relationship has remained in a cryptic stage that focuses on rather superficial information, while an in-depth analysis of the implications and the nature of the relationship is missing. Corruption biases administrative and political decisions, diverts resources, and undermines sustainable development (Aidt 2009). Because of its clandestine and illegal nature, research can rarely address corruption through direct observation. Glad's work (2002) is close to our argument as his approach to corruption is based on authoritarian power. However, Glad argues that corruption is a desperate measure of the tyrants in the face of their weakness, and in a vicious circle, acts of corruption, in fact, weaken them further.

Based on our research on Russian-Venezuelan relations between 2005 and 2018, we argue rather that corruption may strengthen governments since they can achieve and reinforce international alliances through it. Also, political corruption may legitimate them internationally by bulling recognition and support from foreign powers. These practices may open new financing routes, break sanctions barriers, and create illegal investment opportunities. We call this phenomenon of corrupt feedback "the versatile amalgam", as it unites allies while strengthening other areas of their authoritarian cooperation. Our claim is supported by relevant facts and events, compiled and organized to allow us to develop a descriptive inference that connects the strength of the alliance and authoritarian resilience through corruption ties.

This article is composed of three sections. Firstly, we present our research approach and challenges studying corruption in general, and especially in the analysis of foreign relations. Secondly, we show evidence that supports our claim. While this is a voluminous key collection of information, we do not as-

sert to be exhaustive. However, the evidence is reinforced with statistical data on the strongly positive relationship between authoritarianism and weakening in the application of the law in Venezuela. While the revisited cases of political corruption with international ties correspond mostly to those with Russia, our descriptive inference highlights the importance of corruption for the alliance. Finally, we conclude on the strengthening of geostrategic interests through the versatile amalgam.

### **Research approach and challenges**

Russian-Venezuelan relations have become a central factor in the Venezuelan crisis. The support of Moscow appears to have encouraged Caracas to challenge the institutions and values of the Western hemisphere. They have further disrupted the possibility of a negotiated exit from the crisis and weakened the credibility of outside threats to the government. Corruption is often omitted from analyses of foreign policy. On the one hand, it is not considered capable of affecting the course of a state's external action. This may be due to the pre-eminence of foreign policy analysis in strongly institutionalized states. However, Russia and Venezuela have been categorized as mafia states, (Harding 2012; Naím 2012; Chaplin 2013; Magyar 2016; Myers 2017) due to the personal nature of the power wielded, but above all because of the power of public-private networks, the crucial variable in many decisions. On the other hand, regarding access to information, corruption tends to be a cryptic phenomenon, particularly at the highest levels of public power. Nevertheless, it was possible to reconstruct part of the framework that serves as a versatile amalgam in Russian-Venezuelan relations, through the collection and systematization of public data.

Schweller's balance of interests (2008) incorporates domestic elements of foreign policy analysis into the study of alliances, proposing that even if the balance of power and balance of threats may explain expected behaviours such as balancing – in symmetric rivalry – and bandwagoning – in asymmetric rivalry –, they can fall short when analysing apparently irrational modes of conduct. Thus, Schweller argues that “the aim of balancing is the self-preservation of values already possessed, while the goal of bandwagoning is usually self-extension: to obtain values coveted,” (1994: 74). This idea is the key to understanding Russian-Venezuelan relations.

The status of Russia as a great power is questionable, often being identified as a regional power (Nolte 2010; Rubinstein & Smolansky 2016), or a decaying global power (Neumann 2015). However, as the natural heir of the USSR, Russia clings to its remaining symbols and skills of international power: its permanent seat in the United Nations Security Council, its alternative military-technical capabilities facing the West, its territories, and its energy resources. Putin's government seems willing to demonstrate that Russia is a great power, capable of operating in regions as far away as Latin America. For its part, the

situation of Venezuela has changed significantly since Maduro assumed the presidency, although the country's strategic objectives have not. Venezuelan military capabilities have declined, and the post-Chávez leadership is far from having the same characteristics of command and charisma; being an ideological and geopolitical reference for Latin America and the rest of the Global South that support the Bolivarian revolution (Mijares 2017). If the result has been a rearrangement of priorities, revolutionary expansion has been postponed in the hope of better times (Romero & Mijares 2016). The special relationship of Venezuela with Russia must be understood in terms of this expectation, as well as in those of the expansive revolutionary phase that originated with the links between Chávez and Putin (Rouvinski 2018).

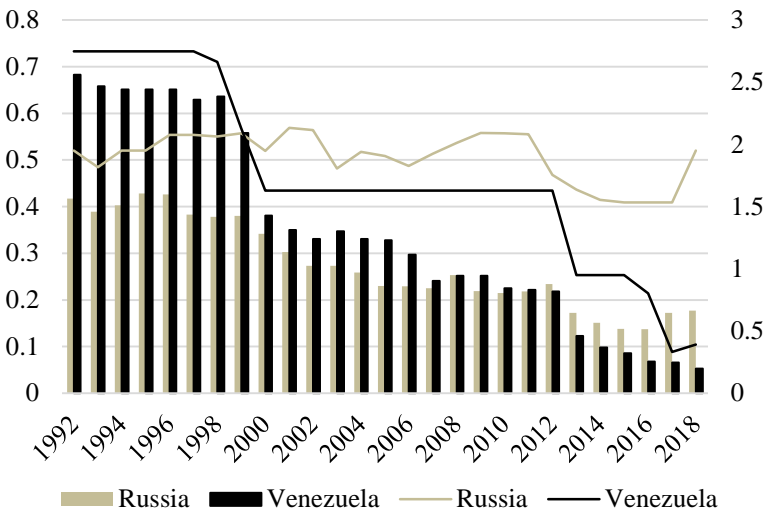
Balance of interests predicts a natural alliance between revisionist major powers and minor revolutionary powers. Russia fears losing international recognition as a great power. The Russian strategy of external assertiveness equates defence with the expansion of interests, assuming that geopolitical cornering can only be broken via geostrategic initiative, as in the cases of Georgia and Ukraine, and has been encouraged by the diplomatic incursions of the West into Moscow's natural sphere of influence and, even more so, into its security perimeter, the so-called "near abroad" (Mead 2014; Götz 2015; Radnitz 2018). In accordance with the premises of offensive realism (Mearsheimer 2001), Russia has invested part of its efforts, and budgets, in opening breaches in the perimeter of the far West, taking advantage of *chavismo's* willingness to forge a special relationship (Rouvinski 2018).

Since the first decade of the twenty-first century, Caracas has acted as a minor revolutionary power, and its bandwagoning to Russia can be understood as a risky gamble for its government and its society (Schenoni & Escudé 2016). Neoclassical realism (Lobell et al. 2009; Ripsman et al. 2016) incorporates domestic variables in the identification of causal mechanisms – such as perception, ideology, and state-society relations – and reasons for this arise from the subnational and transnational political orders that complement foreign policy analysis. Thus, we claim that the web of corruption breeds a versatile amalgam that strengthens the Russian position in Latin America, providing aid to Maduro's government. It is a transnational network of sectorial and personal interests whose facilitating feature is corruption. This multi-level relationship, favourable to Russian interests and useful to the Venezuelan government, invigorates the geostrategic imperative associated with their energy and weapons industries, and the need to raise their international prestige in the context of a system more inclined to United States-Chinese bipolarity.

In this context of subnational and transnational ties, corruption emerges as a key factor to understand Russian-Venezuelan relations. Both countries remain motivated by the ideas represented in their international roles and interests, as well as the perception of their own capabilities vis-à-vis their external rivals (Mijares 2017; Rouvinski 2018). However, the amalgam emerges at the lower levels of strategic international cooperation, generating a circular effect. This

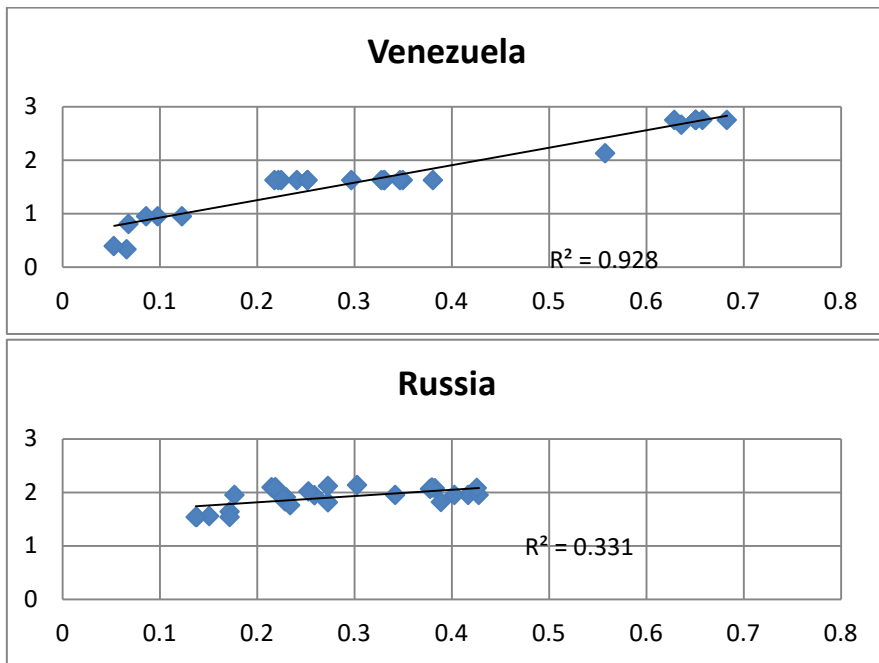
has adverse consequences for the minor ally's institutions, but contributes to its authoritarian resilience, leads to greater Venezuelan dependency on Russia and strengthens the alliance. An interesting finding in this regard emerges from the linear regressions between the Deliberative Democracy Index (DDI) and the transparent laws with predictable enforcement indicator (TLPE) for the period 1992-2018 (see figures 1 and 2). According to the correlation coefficient, the relationship is weak for Russia ( $R^2=0.331$ ), but strong for Venezuela ( $R^2=0.928$ ).<sup>2</sup> It can be inferred that the Russian and Venezuelan authoritarian governments behave distinctly regarding their legal systems and notions of order.

Figure 1. Deliberative democracy index (DDI) (bars). Transparent laws with predictable enforcement TLPE (lines) (sources: authors, based on Coppedge et al. 2019)



Thus, for the Russian government, authoritarianism does not imply undermining its laws, while for the Venezuelan government authoritarianization is accompanied by the undermining of state rules, resulting in institutional weakening, corruption, and authoritarian governability. The TLPE indicator does not respond to any normative pattern of political regime, but rather to the coherency of the laws of a country, democratic or authoritarian. The unusual nature of the Venezuelan case is noted, given that its authoritarianization comes with the unpredictability of its laws, implying authoritarian governability sustained by the degradation of the institutional and social order.

Figure 2. Authoritarianism/Institutional strength diminishing (source: authors, based on data by Coppedge et al. 2019)



Academic research on corruption tends to suffer the same problems as journalistic and judicial research, given the reticence of perpetrators and accomplices to be exposed to the law or public scorn. The very nature of the phenomenon hinders research and the application of methods to establish causalities (Schwickerath et al. 2017), or to operationalize corruption as an objective phenomenon (Kaufmann 1998). This is even truer when the case study is the contemporary Russian-Venezuelan relationship as decision-making processes tend to be opaque and involve decisions based on the interests or interpretations of an individual or a group, while at the same time involving the entire nation (Duroselle 1981; Berridge 2015). Moreover, these two governments, Russia and Venezuela, have been categorized as competitive, as well as full authoritarianisms (Levitsky & Way 2010; Coppedge et al. 2019), with secrecy being an essential feature of authoritarian regimes (Ahram & Goode 2016).

To analyse corruption ties between the two governments, our research design is a descriptive case study. Although this cannot establish conclusive causalities (Anastas 1999; Levy 2008), it exposes the mechanics of acts of corruption. The descriptive design adapts to the difficulties of studying corruption in the framework of relations between authoritarian regimes. We share the opinion of King et al. (1994: 34-35) regarding the precision of comprehensive descriptions that can explain complex phenomena. This research design was used to accommodate a congruence method, allowing us to establish causal mecha-

nisms in a minimalist sense (George & Bennett 2005: 181-204), adapting to the inherent difficulty of establishing a robust causal inference. Accordingly, we gathered and systematized scattered free-access information. We found patterns that helped establish congruence regarding the theory of balance of interests in alliances (Schweller 1994), as well as the inference that corruption contributes to the cohesion of Russian-Venezuelan relations, two allies that also share geopolitical visions. To reinforce our inferences, we developed linear regressions between indicators that allowed partial confirmations, strengthening the evidence on the corruption-international alliance relationship between Russia and Venezuela.

We infer that benefits are granted to corporate groups affiliated to both governments, with a tendency inclined to further favour Russian civilian and military groups, and to undermine the rule of law in Venezuela, facilitating corruption (see Figure 3). Unlike the conclusions of Glad (2002), in corrupt Russian-Venezuelan relations Maduro's government finds favourable returns, encouraging it to go further. Consequently, the utility of the cycle benefits the corporate sectors close to the Kremlin and the Miraflores Palace, as well as the governments and their revisionist geopolitical visions. The costs come at the expense of the sacrifice of the socioeconomic and political conditions of the Venezuelan population, as well as the country's institutions and natural resources.

Figure 3. The versatile amalgam cycle



### **Russian-Venezuelan corruption ties: some empirical evidence**

Putin's Russia applies a mixed geopolitical doctrine of pragmatic distension and enclave opportunism in Venezuela. This section presents synthesized information on emblematic public cases that highlight the corruption ties between Russia and Venezuela. Some of the facts collected here were verified by contractors and government officials. The purpose of this section is to highlight

the dynamics of state co-optation for private purposes, and their public effects for institutional weakening in Venezuela and, consequently, for strengthening the alliance with Russia. Energy and the arms complex are two major instruments of the global influence of Putin's Russia (Baev 2012). Both industries coexist in the oligopolistic context of the Kremlin and private capital loyal to Putin.<sup>3</sup> Private capital has multiplied thanks to the privileges guaranteed only by an authoritarian system with few control mechanisms. Following these practices, the Venezuelan government has granted Russian businessmen a unique investment climate in strategic military and energy areas, with no oversight. However, at the same time, administrative fog can also hinder Russian investments in Venezuela in the long-run.

### *Extractive industries*

Investing in Venezuela involves a high level of risk, and the most valuable Russian contract in the Orinoco oil belt is a good example. Venezuelan state-owned PDVSA offered Rosneft a 10 percent share in the Petropiar project, knowing that 30 percent of said investment is controlled by Chevron (Guanipa & Buitrago 2019), meaning operations may violate sanctions due to the entrance of Rosneft to the belt. Likewise, Russian experts have undertaken risk analyses regarding the management of PDVSA, regarding current president Manuel Quevedo as a military officer with insufficient experience in the oil business (Ulmer & Párraga 2018). Nonetheless, it seems that Russia assumes these risks (Banca & Negocios 2019), presumably motivated by the comparative advantages in natural resource management of a corrupt and inefficient state like Venezuela, a state also hungry for international support and financing regardless of conditions imposed by at-risk creditors, and very open to the possibility of ceding sovereign control – with serious damage to Venezuelan wealth – in favour of a Russian semi-enclave in the Americas.

Rosneft also has shares in other Venezuelan oil companies with priority participation in the nine projects of exploration, exploitation, refining, and trade of oil from the Orinoco belt. Rosneft resold approximately 225,000 barrels of Venezuelan oil daily,<sup>4</sup> around 13 percent of total exports in 2016 (Párraga & Ulmer 2017). Another example of Russian financial assistance to Venezuela came from the Russian fuel and energy complex:<sup>5</sup> US\$6 billion paid by Rosneft to PDVSA. In late 2017, Venezuela failed to pay US\$200 million in interest on PDVSA debt, alarming credit rating agencies that anticipated an imminent default. Thus, nowadays, Russia is one of the biggest creditors of the Venezuelan government. Caracas owed Moscow approximately US\$8 billion (Samofalova 2017). However, an internal source in the oil industry revealed that Rosneft has given Venezuela at least US\$17 billion in loans and credit since 2006. Whatever the exact figure, a decade-long payment schedule was agreed. Through a prepaid formula worth US\$6 billion, Rosneft assured a future supply of Venezuelan oil (Vedomosti 2019). Thus, Russia is key to help



the Venezuelan government bypass some elements of the United States' financial and oil sanctions imposed on Maduro's government (Jakes 2020).

The Orinoco belt is the greatest global reserve of extra-heavy crude oil and requires special investment and technology in its commercial exploitation. However, because of its volume, it is a long-term investment which, due to the pragmatism necessary for the political survival of the Bolivarian revolution, has been partially granted to Russia on unconstitutional terms. The Venezuelan parliament has been silenced; its decisions have been annulled by the government-controlled Supreme Court and its National Constituent Assembly. In this context, no debt obligation has been discussed or approved by the parliament as the Constitution mandates. Russian diplomatic support after these political manoeuvres of the Venezuelan government, suggests that while *chavismo* remains in power, Russia and its corporate groups may enjoy full investment guarantees, with these taking precedence over any environmental or human rights considerations.

Another invaluable geopolitical incentive for Russia is Citgo, a Venezuelan-United States' refinery based in the United States. Rosneft received a 49.9 percent share in Citgo as guarantee for a 2016 loan to PDVSA. With Citgo, the Russians literally have one foot in the United States' energy market, holding half the shares in a strategic asset on United States' soil. However, according to Kiril Yakovenko of Alor Broker, a Venezuelan default would strategically affect Russia, "because in this case, its assets and shares in oil companies, including the Citgo oil refinery, would be sold because of its debts," (Samofalova 2017). Likewise, Russian investors have spoken behind the scenes about the possibility of changing their participation in Citgo for more oil and gas concessions in Venezuela, thus overcoming an escalation of United States' sanctions against Russian companies.

Pavel Sigal of Opora Rossii, a Russian business association, states that Venezuela and Russia are allies in various strategic themes, meaning that "it is in our interest to support that country," (Samofalova 2017). Similarly, Yakovenko underlines the fact that Venezuela is Russia's beachhead in not only the United States but in OPEC also, meaning Russia attempts to ensure that Venezuela, as a full member of one of the most powerful cartels in the world, supports Russian interests in decisions taken within the organization (Cardozo & Mijares 2019). Before the latest sanctions against its trading branch (Jakes 2020), Rosneft complemented its production capacity with this oil commercialization strategy, taking advantage of United States' sanctions against PDVSA to reinforce its intermediary role in the refining of Venezuelan extra-heavy crude oil. Accordingly, PDVSA is reducing its direct presence in international markets in favour of Russian interests (Eaton et al. 2019).

On 3April, 2018, the meeting of the Russian-Venezuelan High-Level Intergovernmental Commission (CIAN) concluded, in which medical plans and projects related to medicines, metal works, weapons, mining and, above all, oil, were discussed. The CIAN proposed installing a vaccine factory to partially

address the crisis in this area, and to exploit the Orinoco Mining Arc (AMO).<sup>6</sup> Moreover, it recommended continuing the PetroMonagas-Rosneft joint venture in the oil belt with the creation of the mixed company Perforosven (AVN 2017), as well as concessions, without parliamentary control, of key reserves such as those of coltan – in which Belarus has, to date, had a discretionary participation – and gold, among other minerals. These concessions are granted outside public bidding processes, processes in which Russian businessmen are also permitted by the Kremlin to invest in Venezuela. It is understood that, in this case, ‘investing’ is totally protected from oversight by the republic and all its supervisory bodies. In the case of mining, exclusive business of the Venezuelan military (OCMAL 2018), the Russians have participated in extraction without complying with the regulatory norms of the Ministry of the Popular Power for Ecosocialism and Water.

Paradoxically, most of the Venezuelan oil resold by Rosneft goes to the United States (Ordóñez 2019). Moreover, with supply contracts that belonged to PDVSA in the past, the Russian company has made agreements that cost PDVSA years of lobbying and marketing to sell its extra-heavy crude oil to other refineries worldwide, especially in China and India. The Venezuelan oil that feeds Rosneft was equivalent, in 2017, to approximately US\$3.6 billion per year, and the projection of PDVSA is to increase that remission fee. Likewise, Rosneft took PDVSA away from its second-most important Asian client, the Indian refinery Essar (Verma 2016). Such ‘sacrifices’ are based on a *quid pro quo* logic where, under the factoring modality, Rosneft collects PDVSA revenues to evade the sanctions imposed on the Venezuelan state-owned oil company and thus permit the flow of cash to the choked government of Maduro.<sup>7</sup>

### *Energy and finances*

In the energy field, the Russian giant Gazprom reached its first tentacle to the Americas with the beachhead in Venezuela. The “Rafael Urdaneta” project began in September 2005, with a plan to explore and exploit reserves in the Gulf of Venezuela. PDVSA granted the exclusive contract to Zarubezhneftegaz ZAO, today Gazprom International, for exploration and exploitation in the Urumaco 1 and Urumaco 2 blocks. To do this, Gazprom established two companies, Urdaneta-Gazprom-1 S.A. and Urdaneta-Gazprom-2 S.A., to exploit natural gas reserves estimated at 100,000 million cubic meters (Gazprom 2007). Gazprom has also extended its reach to the Orinoco belt. Thus, it has played both a technical and political role. The technical role is because the study to certify the Ayacucho-3 block of the belt was undertaken by its subsidiaries Gazprom PAO, Gazprom Latin America B.V. and the mixed company with PDVSA, Servicios Venrus S.A. The political role is evident, given that the Russians have, via Gazprom, certified that the Ayacucho-3 block contains

approximately 1 billion tons of oil, of which 170-180 million tons are currently exploitable.<sup>8</sup>

Corruption has been, more than a constant, a versatile amalgam in the Russian advance into Venezuela. The intervention of Gazprom has been an ambitious Russian geostrategic move, but regardless of the geopolitical scope of Gazprom's projects, this company has also been, through its different corporate faces, a neural part of the corruption networks expanding both within and from the South American country. In 2014, Gazprom Latin American Servicios C.A., the corporate face of Gazprom for Venezuela, accused Texan-Venezuelan firm Lindsay C.A. of fraudulent conduct in the construction and installation of a natural gas compression plant estimated at US\$43 million. However, Lindsay C.A. had previously sued Gazprom for US\$1.4 million in overdue bills. The response of the Russian giant was to allege that Lindsay C.A. had "under-achieved and over-billed the whole construction of the plant (...). The execution of the contract is fraught with signs of fraud". Moreover, Gazprom also alleged that a Venezuelan court had no competence to undertake an embargo (RAPSI 2014).

Gazprombank Latin America BV, a subsidiary of Gazprombank and, since 6 April, 2018, included on the blacklist of the Office of Foreign Assets Control (OFAC) of the United States' Treasury Department, inexplicably accepted a loan of US\$35 million in 2012 from Derwick Associates – presumably for money laundering, tax evasion and/or to create a legal curtain –, Derwick Associates being a company implicated in one of the biggest embezzlements in Venezuelan history (García Rey & Bátiz 2018).<sup>9</sup> The transfer originated in the Julius Baer Bank of Zurich, arriving in another Gazprombank account through the intermediation of JP Morgan Chase Bank in New York, the same bank that included Venezuelan and PDVSA bonds as eligible for their flagship benchmarks in 2017 (Robinson & Tasman-Jones 2018). Otto Reich, former United States' Assistant Secretary of State for Western Hemisphere Affairs, estimated a total embezzlement of US\$2.9 billion, and one which explains, to a large extent, the Venezuelan electricity crisis (Kary 2016).

When Derwick Associates entered the oil business in 2011, their three founders – Alejandro Betancourt López, Francisco Convit Guruceaga, and Pedro José Trebbau – established the Derwick Oil and Gas Corporation in Barbados, creating their partnership with Russian Gazprombank Global Resources, a Gazprombank subsidiary. The result of this corporate-financial graft was Gazprombank Latin America Ventures BV (Boyd 2017). In 2013, then-president of PDVSA, Rafael Ramírez, presented Alexander Muravov and Boris Ivanov, vice-presidents of Gazprombank, as the financial entity of Petrozamora, the mixed company that today has as shareholders the Venezuelan Petroleum Corporation (CPV), with 60 percent, and Gazprombank Latin America Ventures – that is, Betancourt López and Gazprom – with 40 percent (Pitts 2013). Petrozamora has ceded huge advantages to its Russian partner in consideration of a loan of \$1,000 million dollars granted by Gazprombank. The business is sim-

ple: Venezuela cedes the oil fields to Russia, CPV extracts the oil, and Derwick sells it directly on the international market, paying its Gazprombank partners in record time.

The president of Derwick Associates is the Venezuelan Alejandro Betancourt López, presumably the financial mastermind and lobbyist behind the countless threads in one of the darkest networks in the history of corruption under *chavismo*. Betancourt López was, from 2007, Gazprombank representative for Latin America. In 2009, he was the financial operator for the transfer of US\$500 million from future purchases of the Orinoco Steel Industry – a state-owned company – to a Gazprombank account in Lebanon (Boyd 2012). In this dark operation, links were required to the then-president of the steel corporation, Rodolfo Sanz, a *chavista* politician who was at different moments a mayor and a member of parliament, and who led the company and its subsidiaries into bankruptcy. In fact, Gazprom ignored the US\$500 million transaction, which included money destined for the purchase of two Russian power plants with the aim of equipping the Venezuelan steel industry in the Guayana region – and which never arrived –, an event to which Sanz turned a blind eye, saying at a press conference on 10 March, 2010, that “the support of Gazprom and Derwick is invaluable and we greatly appreciate it,” (Los Sin Luz 2018).

This web of corruption was briefly teased apart in 2017 thanks to allegations of sabotage and the charging of commissions from the office of other Russian partners representing Gazprombank Latin America Ventures, leading to plummeting production by Petrozamora due to the total technical divestment of CPV which was barely operating, with only two drills on land and one barge. This event dragged down the then-resident of PDVSA, Eulogio del Pino, imprisoned since late 2017. According to sources from the Venezuelan Public Ministry, the corruption network in Petrozamora affected the production of 15 million barrels of oil between 2015 and 2017. Additionally, in late 2017, the General Leadership of Venezuelan Military Counterintelligence raided the offices shared by Gazprom and Derwick Associates in the Kyra Tower in Caracas, while Betancourt López was arrested by another Military Counterintelligence commission at the country’s main airport, by order of the country’s Attorney General. Nevertheless, Maikel Moreno, president of the Venezuelan Supreme Court of Justice, intervened to permit the President of Derwick-Gazprombank to leave the country (El Pitazo 2019).

Four of the five main Russian companies that invest in Venezuela are on the United States’ blacklist (Sputnik 2018), after the interference of Moscow in Ukraine and the annexation of Crimea: the oil company Rosneft, the financial giant Gazprombank, Rostec with its 10 percent of the global weapons apparatus, and Rosoboronexport, the Russian state-owned arms export company. Only Inter Rao, an energy export consortium, is safe from the United States’ list of Russian companies allied to *chavismo*. It should be noted that Rosoboronexport has been sanctioned since 2006, when the Bush administration ac-

cused it of providing supplies to Iran in violation of the Iran Non-proliferation Act.

In the financial area, Aerotrading, a Russian block chain company, was the platform used by the Maduro government in early 2018 to boost the petro, the pseudo-cryptocurrency that aspired to circumvent the labyrinthine walls of the United States' blockade of Venezuelan financial operations with United States' banks. The project deflated following its scandalous opening, until its total extinction without a single market price. The fact that Gazprombank and Aerotrading validated the proposal of the petro also placed them among the companies sanctioned or blocked by Washington (La Rosa 2018).

### *Arms trade*

Regarding the arms business, in 2017 a Venezuelan delegation signed an agreement to restructure the debt to Russia of US\$3.15 billion, granted in 2011 to buy Russian arms. In April 2018, Venezuelan Minister of Defense Vladimir Padrino López declared: "Russian-Venezuelan cooperation is deepening every day, we have received the backing of President Vladimir Putin in the face of the aggressions we have constantly received, and we have done the same facing the aggressions constantly received by the Russian Federation," (Salcines 2018). Padrino López was invited to the VII International Security Conference in Moscow, where he enjoyed a good understanding with his Russian counterpart, general Sergey Shoygu. He implied that the Russian-Venezuelan alliance promised to become so close that Russian military officials could operate inside Venezuelan territory. Exchanges have taken place between the air forces of the two countries, training pilots on the technology of the Sukhoi SU-30 fighter aircraft, MI series helicopters, and in armoured ground force vehicles, especially for special forces. There is also an offer of Mi-38 and Mi-171A2 devices, and of a simulated helicopter instruction centre in Venezuela (Deutsche Welle 2018). Similarly, there is speculation about the installation of industrial factories to assemble AK-103 assault rifles, despite the Russian-Venezuelan corruption plot that previously occurred in an identical project with the state-owned military company CAVIM (Gubín 2019).

The Venezuelan Minister of Defence declared, together with his Russian counterpart, that all this would take place through a process of investments in the Russian military weapons installation in Venezuela, with the promise of technology transfer to help develop a military industry of its own (HispanTV 2018). Regarding this promise, it should be noted that if Russia finances Venezuelan debt, Russian investors have known how to take advantage of the parallel Venezuelan state in multi-million dollar works, almost entirely prepaid by Venezuela and abandoned at 3 percent of their execution (Stolk 2015). That is, using the corruption in the Venezuelan military, Russian bureaucrats and military officials undertake works without any supervision beyond that of a shadowy military watchdog, for example, the country's largest ammunition arsenal,

in the central state of Aragua, for CAVIM (Hernández 2017). Another example is a contract with no expiry date for the acquisition of specific lubricants for the Mi-17V-5, Mi-172VIP, Mi-26T2, Mi-35M2, Mi-172, and Mi-28N helicopters, produced in Russia with minimum quality standards,<sup>10</sup> to the detriment of the national supply of this special lubricant, which would prolong the life of the multipurpose Russian Mi line of helicopters, and also break, to some extent, the chain of technological dependence. The delay in works for the huge Helicopter maintenance and repair centre of CAVIM, destined to undertake the maintenance of these aircraft, means the project has barely begun its initial phase (CAVIM 2018).

### *Other business*

In construction industry we find the case of a company linked to an ex-mayor of Moscow, Yuri Luzhkov, whose operator in Venezuela, Vitaly Kryuchkov, director of the Russian Foundation for housebuilding, was involved in a lawsuit for breach of contract in the construction of eighteen buildings, worth US\$150 million, for the Tiuna City project inside Venezuela's largest military base. However, the Venezuelan Supreme Court ruled in favor of Kryuchkov, obliging a Venezuelan company and a Venezuelan insurer to compensate him for 1,500 million Venezuelan bolivars<sup>11</sup> (La Voce d'Italia 2017). Another striking event was a ruling in favour of Venezuela by the Russian court of the Moscow-based district of Lefortovskiy. Irina Pomeschchikova, an investor from Stroyinvest Engineering Su-848, was sentenced to three years in prison for the embezzlement of US\$16 million destined for the construction of a factory of Kalashnikov rifles in Venezuela. In February 2017, Sergey Popelnyukhov, an ex-federal senator from the Belgorod region, was also sentenced to seven years in prison for the same case (RAPSI 2014).

In a different but illustrative note, the most colourful corruption event took place in 2011 with the Russian-Venezuelan flower company, Orquídeas S.A., when then-president Chávez promised that Venezuela would become a flower exporter and that a shipment was ready to leave for Russia, although by boat, not airplane. Only two shipments were made in 2012. A shop was opened in Moscow, of which all that remains is a lawsuit for non-payment of rent and the anecdote of a centrepiece of lilies on the table during a presidential meeting, in which Chávez asked Putin if Venezuela could sell flowers to his country. The embezzlement over approximately three years is estimated at US\$42 million (Penacchio 2017).

### *Implications*

These diverse corruption networks give Russian corporate groups the advantage over the few multinationals that remain operational in Venezuela, as the Russians enjoy a kind of state secret from the moment they are chosen to

finance projects in the country by business circles close to the Kremlin. Many large multinational companies have left Venezuela due to legal uncertainty and continuous harassment by parts of the state and para-state apparatus, as well as pro-government unions. However, the Russian consortia enjoy the geopolitical preference of the Venezuelan government, the darkness in which negotiations take place, and the network of corruption inherent in both governments. Thus, the influence and interests of the Russian oligarchs, as well as those of the high-level Venezuelan officials with whom they associate illegally, enjoy the stability and legal shield that an all-powerful state can offer its allies. An example of this special treatment and immunity is that of the Russian, Belorussian, and Chinese construction companies that avoid the terrifying worker-employer negotiations imposed by unions on the construction industry in Venezuela, unions run by mafias, where private companies are forced to offer commissions of between 25 and 30 percent of the project due to threats to paralyze works with situations of real violence (Lucena 2015, Avendaño 2017, KonZapata 2017).

Russian companies dodge investigation motivated by suspicion or by requirement of the natural control apparatus of a democratic state: supervisory organs of the republic, discussions in and control by the National Assembly on strategic projects, budgets and debts, and any supervision of the executive related to environmental or labour issues, human rights, indigenous rights, gender rights, etc. They also escape tax norms, 'national added value', technology transfer, and any factor that implies commitment beyond financing the authoritarian government, thus obtaining both economic benefits and political consideration, and at the same time strengthening the Kremlin's enclave in the Americas. Therefore, the global calculations of Rosneft were not merely economic. A senior manager confessed that politics had prevailed over economics in decisions taken regarding investments in Venezuela: "From the beginning, it was a purely political project. We all had to contribute," suggesting that only in a large geopolitical manoeuvre could a quota of US\$6,500 million be sacrificed, the total value of the loans given by Rosneft to PDVSA from 2015 to 2018. For this reason it is more acceptable in the post-Cold War scenario to pursue logics similar to those of the Cold War, such as the 'projection of strengths' by Russia from Caracas, according to Alexander Gabuev of the Moscow Carnegie Centre (Lowe & Sagdiev 2019).

The evidence in this section is not intended to be exhaustive, but rather illustrative and complete enough to infer that the transnational ties of corruption between Russia and Venezuela have indeed permeated intergovernmental relations and strengthened state-to-state cooperation. The cases included show a pattern of corruption corresponding to the main finding of this research: "the versatile amalgam cycle (see Figure 3) shows that international alliance cohesion leads to the strengthening of special corporate interests that, to flourish, undermine the rule of law of the minor partner. This facilitates corruption prac-

tices and, in turn, contributes to the authoritarian resilience that maintains cohesion with the senior ally.”

## Conclusion

The main inference of this research is that Russian-Venezuelan relations are sustained by the survival needs of the Venezuelan regime, economically wounded but politically and financially revitalized thanks to an alliance amalgamated by corruption at the service of both, geopolitical and corporate interests. Events suggest that Russia has been taking risks in the United States *near abroad*, due to the world’s largest oil reserves are well worth a period of unsafe credits and political gambles. This dynamic disguises the decline of Putin’s Russia as a relevant power. In Russia, Maduro finds a life raft in the middle of the storm; while in Venezuela, Putin finds a tool for Russia’s geostrategy: to be a power with voice, vote, and veto in the Western hemisphere. This research has contributed to identify the authoritarianism that coexists and encourages the unpredictability of law. First, because it offers evidence about a type of authoritarian governability disengaged from the demands of socio-political order. Although the coexistence of autocracy and state failure has until now been explained through the *chavismo*’s revolutionary character (Martínez Meucci 2016), or its tendency to fail due to the incompatibility of its proposals and the regular functioning of the modern state (Ramos Pismataro & Ito 2016; Iturbe 2017); our evidence shows a phenomenon that could be well explained by regime survival needs. Secondly, the finding reinforces our argument about the centrality of corruption as a factor that generates conditions for strengthening international alliances through transnational ties. Institutional weakening is key in the puzzle, since undermining order contributes to authoritarian resilience and invigorates an international alliance of high geopolitical value. This inquiry also suggests new reflections in the study of international alliances. We explicitly introduce one of the functions that corruption may have in the context of international alliances under authoritarian regimes. This offers a fertile niche in the study of corruption as a driving force in international authoritarian cooperation.

Finally, we believe that our findings open up potential new avenues of research on complex asymmetric relationships in the context of a changing world order. A more permissive international system<sup>12</sup> is giving rise to new forms of inter- and transnational relations that test classical concepts such as “alliance.” Venezuela demonstrates that a resilient authoritarian regime can not only survive nested in a weak state that could be functional. Thus, the case of corruption ties between Russia and Venezuela may open the door to the investigation of what we might call “disintegrating authoritarianism,” or regimes whose survival depends on the degradation of the minimum conditions of statehood.



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## Notes

- 1 As “corruption” in this article we agree with Transparency International broad definition of “political corruption” as: “Manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth” (2017), see also Heidenheimer et al. 1989.
- 2 To confirm the finding we subjected a varied group of states to the same test as control subjects. Among them, Australia (R2=0.116), Chile (R2=0.077), Colombia (R2=0.004), North Korea (R2=0.180), Norway (R2=0.028), and the Democratic Republic of Congo (R2=0.206), presented irrelevant values. Cuba (R2=0.335), another important ally of the Venezuelan government, reported similar values to those of Russia for the same period, being equally low.
- 3 For instance, Igor Sechin, president of the state-owned energy company Rosneft, has been a powerful advisor to Putin since 1994, and a member of the siloviki faction within the Kremlin (The Guardian 2012).
- 4 Roughly equivalent to the daily oil consumption of the Netherlands in 2017 (BP 2018).
- 5 The Russian fuel and energy complex represents the whole hydrocarbon infrastructure, physical and financial, of the Russian Federation. For an assessment of the Russian fuel and energy complex, see Kuznetsova and Kuznetsova (2015).
- 6 The AMO is a “strategic development zone” of almost 112,000 km<sup>2</sup> on the south bank of the Orinoco River. The Project was formalized through presidential decree on 24 February 2016. The AMO has reserves of diamonds, gold, coltan, iron, nickel, bauxite, marble, coal, granite, phosphates, feldspars, and rare-earth elements.
- 7 Factoring allows PDVSA to streamline commercial transactions and operations from three months to one, while Rosneft charges a fee per operation. In January 2019, BB Energy paid Rosneft US\$26 million for 550,000 barrels of Venezuelan oil, but Rosneft was only an intermediary, undertaking the transaction then transferring the payment to PDVSA. Another example of this occurs with the Indian company Reliance which, through Rosneft Trading SA with fiscal domicile in Geneva, undertakes the buying and selling operations contained in a 15-year contract with PDVSA – some 400,000 barrels

- per day – in which both the Indian and the Venezuelan companies pay the Russian one 3 percent of each transaction (Párraga 2019).
- 8 On July 26, 2018, President of the Venezuelan Central Bank (BCV) Calixto Ortega congratulated the Venezuelan government for assigning the Ayacucho-2 block, consisting of 30,000 million barrels of certified oil, to the BCV. Maduro leveraged the monetary reform of July 2018 with the petro, the pseudo-cryptocurrency made possible by the support of Russian giant Gazprombank and Russian company Aerotrading. The petro is backed by the proven reserves of the Orinoco belt, where the Russians have taken the lead. Russia has drawn closed energy and financial circle to clearly define its position in Venezuela and its destiny (Coinfox 2018).
  - 9 Because of this US\$35 million loan, Venezuelans Francisco Convit Guruceaga and Orlando José Alvarado Moreno, both of Derwick Associates, and Boris Imanov, of Gazprombank Latin America BV, were implicated in the corruption network (Transparencia Venezuela 2018). Imanov is also Executive Director of GPB Global Resources, a partner of PDVSA in Petrozamora, a subsidiary of the Venezuelan state-owned petrol company, established with a Russian loan of US\$1 billion (VTV 2017).
  - 10 Personal communication with a manager of the Venezuelan refined oil company Venoco in 2016.
  - 11 Approximately US\$15,716 at that time in the Venezuelan black market.
  - 12 For international permissiveness and restrictiveness, see Ripsman et al. (2016: 52-56).

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