

Russian Engagement in the Western Hemisphere

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Honorable members of the Subcommittee on Western Hemisphere Affairs, my remarks today will focus on Russian engagement in Cuba and Central America.

In December 1991, the dissolving Soviet Union withdrew its financial support from Cuba and through the island to Nicaragua and the guerilla forces in El Salvador. The result was a victory for democratic governance in Nicaragua and the January 1992 peace agreement in El Salvador. Removal of Soviet and then Russian support for regimes that were opposed to U.S. liberal democracy and free market economies paved the way for 20 years of relative peace in Central America. Today, the return of Russian trade, investment and prospective military projects in the Western Hemisphere is not a return to the proxy fights of the Cold War, but instead indicates Russian outreach in the search for markets and friends. European and U.S. sanctions have driven Russia to look for alternative countries who can buy their hardware, enter into joint ventures on energy products and provide votes in Russia's favor at the UN General Assembly.

In 1992 Russia inherited the close Soviet alliance between Moscow and Havana. But whereas over the previous 33 years the Soviet Union could subsidize the Cuban economy with oil, trucks, tourists and military hardware to the tune of \$4-5 billion a year, Russia after 1992 did not have the cash to maintain its economic support to the island. A decade long quieting of Cuban/Russian relations followed with Fidel Castro urging citizens to adapt, find their own resources and make do with very little. The size of the Cuban debt to Russia in January 1992 was estimated by Russians to be \$25-26 billion.

Fidel Castro turned to Hugo Chavez of Venezuela to support the island's energy needs through *Petrocaribe*. In exchange, Castro sent doctors and intelligence officers to Venezuela. Fidel recognized that his Soviet supporters were unable to maintain the annual subsidy, but he did not wish to lose a relationship that had given him leverage throughout the hemisphere. Fidel and later Raul Castro maintained the relationship with Moscow, visiting Russia and welcoming Russian visitors. Both considered that Gorbachev was naïve and that *glasnost* (freedoms of the press and expression) would destroy the Soviet system. Both determined, therefore, to maintain control over free speech on the island. Raul has opened up the economy somewhat with his creation of small business opportunities and most recently the normalization of relations with the United States, but the old Soviet system of political control and state intelligence gathering continues. Freedom House, of which I am a trustee, still classifies Cuba as 'Not Free.'

So what is the nature of the Cuban/Russian relationship?

- In December 2000, newly elected President Putin visited Havana. He announced no major agreements or investments, but the visit marked the resumption of high level visits by Cuban-Russian officials. It was also marked by a new degree of pragmatism: then Foreign Minister Igor Ivanov stressed that the relationship would be based upon "the realities" of each country and the

competitive rules of the international trading system.¹ Pragmatic trading relations would guide commerce between the two countries and in the ensuing years \$166 million of Cuban debt incurred during the Cold War years was restructured.²

- Russian restructuring of Cuban debt became a regular fixture until 2014. A percentage of the debt is restructured AND Cuba buys or leases Russian aircraft. The value of the sale or lease agreement often approaches the amount of restructured interest due!
- In 2004, \$166 million of Cuban debt to Russia was restructured and two VIP convertible Ilyushin planes were leased for \$110 million. In 2006, Russia provided a \$325 million export guarantee and *Cubana de Aviación* purchased two Ilyushin and three Tupolev aircraft. Payment of the interest on the loan is due to be completed in 2016.
- In July 2008, Igor Sechin then Deputy-Prime Minister and president of the energy group Rosneft headed a business mission to Cuba and Latin America. Sechin, who speaks good Spanish, noted that trade with Cuba had grown to more than \$360 million without specifying whether this amount included the new line of credit. Nevertheless he could point to a 32 percent rise in the number of Russian tourists visiting the island.
- In September 2008, Russia's International Investment Bank (IIB) succeeded in bringing a claim against the Cuban Central Bank for \$330 million. IIB could legally seize Cuban assets anywhere in the world, including Cuba, but it chose not to do so. Two months later, then-Russian President Dimitri Medvedev visited Havana to announce the start of new IIB loans to Cuba. Implicit in this announcement was a renegotiation of the outstanding monies owed by Cuba's Central Bank. The Bank has no website and few telephones and according to Russian sources "has been avoiding contact with the IIB for the last several years."³
- In February 2013, Prime Minister Medvedev returned to Cuba to restructure Cuba's outstanding debt, which then stood at \$32.5 billion. 90 percent of the debt was written off while the remainder would be refinanced over 10 years. (Payment of this debt is complicated because it was acquired in convertible rubles, a currency that no longer exists.) Nevertheless, both governments have sought to resolve the debt issue so that the Cuban government could lease 8 more Russian jets, valued at \$650 million.⁴
- In March 2015, Foreign Minister Sergei Lavrov visited Cuba and endorsed Cuban negotiations with the United States. However, no financial or commercial agreements were announced, leaving observers to conclude that Russia was in a wait-and-see mode on the conclusion of Cuba's normalization talks with the United States. Russian pragmatism requires that any further extension of credit, or the payment on existing loans be protected by new Cuban regulations.
- In April 2015, the IIB announced that any extensions of loans would depend upon events within Cuba. Meantime, the Russian firm UVZ-Logistik announced a joint venture with the Cuban metallurgy and engineering firm GESIME to provide machine tools and manufacturing services to support freight

¹ Igor Ivanov, "Rusia y América Latina: Relaciones de cara al futuro," Embassy of the Russian Federation in Chile, January 2001, www.chile.mid.ru/Old/putlag5.html.

² "Cuba Profile," *Latin American Herald Tribune*, www.laht.com/article.asp?ArticleId=393167&CategoryId=13848

³ "Bank Wins \$33 million in Suit v. Cuba," *Kommersant* September 4, 2008, http://www.kommersant.com/p1020308/Cuban_Soviet_debt

⁴ Alexei Anishchuk, "Russia leases planes to Cuba, writes off Soviet debt," *Reuters*, February 21, 2013, www.reuters.com/article/2013/02/22/us-russia-cuba-deals-idUSBRE91L04J20130222.

wagons, as well as Cuban steel mills and sugar industry at an estimated cost of \$25 million.⁵ That same month, Russia also agreed to furnish Cuba with two Ansat light helicopters, which should be sold onwards to other Latin American and Caribbean nations.⁶ The IIB announced that any extensions of loans would depend upon events within Cuba and meantime Russian financing would be placed on hold. It is clear that Moscow awaits changes to Cuban investment laws that are intended to provide protection to foreign investors.

- Finally, in July this year, President Raul Castro visited Moscow. Once again solidarity and brotherly love was expressed. Particularly, Putin thanked the Cuban leader for opposing UN General Assembly resolutions condemning Russian action in Ukraine.⁷ However, beyond the rhetoric and photographs no commercial deals were signed.

Commercial relations have underpinned the renewed bilateral and mutual friendship, but were it not for the sale and lease of high-priced aircraft, the real value in bilateral trade would be meager. Economic, energy and trade ties have replaced the geo-political ties of the Cold War, but financing is problematic with Russian ability to subsidize its Cuban friends severely affected by the falling value of oil and the ruble. It takes two to samba and the Cuban economy remains weak.

Putin had hopes for significant oil and gas development from Cuba's offshore oil fields, but the four Russian contracts to drill beginning in 2010 have not produced the quantity of oil to make the exploration profitable. Difficult geology, problems with the oil rig and the embargo on the use of U.S. made equipment led to termination in 2013. It would appear that Russia welcomes Cuba's resumption of diplomatic and commercial relations with the United States, which should lead to a sound FDI regime.

Russia's Engagement in Central America:

In line with seeking friends and maintaining open lines of communication, Foreign Minister Lavrov and Defense Minister Shoygn have visited Guatemala, El Salvador, Honduras and Nicaragua. President Putin also dropped by in Managua in June 2014 after Daniel Ortega protested that he was visiting Cuba and South America without paying him a call. Putin changed his plans to land in Managua for a few hours after leaving Cuba and endorsed the recently constructed *Centro Regional de Capacitación Antidrogas*. Supported by Russian funds, the center trains security officials from all over Central America.

Development of trade ties is rudimentary between the region and Russia; in 2012 bilateral trade with Nicaragua stood at \$110 million and trade with Honduras stood at \$51 million. Both Putin and Foreign Minister Lavrov have also encouraged the Nicaraguans to sell them fresh fruits, vegetables, coffee and beef after European imports of these products were banned in Russia.

However, Nicaraguan President, Daniel Ortega's expressed interest in acquiring Mig-29 aircraft with which to fight drug traffickers suggests that he wishes to increase Nicaraguan military power and

⁵ "Cuban freight wagon joint venture agreement," C & S America, April 27, 2015.

<http://www.railwaygazette.com/news/news/cs-america/single-view/view/cuban-freight-wagon-joint-venture-agreement.html>

⁶ "Cuba-Russia Agree on 5 Year Plan" Havana Times, April 26, 2015, <http://www.havanatimes.org/?p=110867>

⁷ Cuba Defends Russia, Criticizes Economic Sanctions, NATO's Expansion in Eastern Europe," International Business Times, July 16, 2015 "<http://www.ibtimes.com/cuba-defends-russia-criticizes-economic-sanctions-natos-expansion-eastern-europe-2011909>

influence in the region. Recently, Honduras bought Super Tucano's from Brazil and Colombia bought C-7Kfir from Israel, but neither have the firepower of the Mig-29.⁸ Valued at \$29 million apiece, Nicaraguan citizens are concerned by Ortega's fascination with military prowess rather than social projects in the second poorest country of the Western Hemisphere.

Were the sale of the Mig-29 to go forward - and to date it has not been confirmed - the military sale would follow a signed agreement in 2013 to purchase a fleet of Tiger armored vehicles and an airborne flight simulator. In March this year, Foreign Minister Lavrov also offered to help provide security for the planned Nicaraguan canal, but that venture needs several years to be accomplished. Meantime, Russian financing for these projects is problematic given targeted U.S. sanctions on Russian banks which will make financial institution in Central America hesitant to enter joint ventures with Russian banks.

We may conclude from these visits and discussions over commercial sales that Russia wants to play a role in Central America. Previously, this region was considered a U.S. sphere of influence under the 19th century Monroe Doctrine, but globalization and the hemisphere's desire to diversify its trading links has resulted in a growing Russian and Chinese presence. Both seek markets for their heavy equipment and military industrial goods, as well as influence at the highest level of government. The Central American market for high valued aircraft and tanks is minimal, but the Russians have opened the door to explore opportunities.

What lies beyond commercial relations?

Since 2008, Russia has demonstrated that it can operate in the U.S. neighborhood. It has conducted military exercises in the Caribbean and sent naval assets to Nicaragua. The day before the U.S. delegation was due to start normalization talks in Havana, a Russian warship docked in Havana. The Meridian-class intelligence ship with a crew of approximately 200 had visited Havana in February and March 2014. The response from both U.S. and Cuban authorities was to play down the visit, treating it as ordinary. However, the timing this January sent the message that Russia should not be ignored; its government sought a role in Cuba's foreign policy.

Cuba is now publicly engaged on a major initiative with Washington. Russia has publicly endorsed this move and sees benefits from Cuban economic opening, as well as the development of an effective FDI regime. However, Russia has two explicit caveats: Cuba's sovereignty should not be infringed, i.e. the return of Guantanamo, and the trade embargo should be lifted. Given U.S. refusal to negotiate the transfer of Guantanamo and Congressional debate over the trade embargo, Russia may have to step back or the United States may find progress towards full normalization stalled. The degree of Raul Castro's independence from Moscow will be tested on these two issues.

⁸ "Arms Deal with Nicaragua Boosts Russia's Presence in Latin America," Global Insights, May 2015
<http://globalriskinsights.com/2015/05/arms-deal-with-nicaragua-boosts-russias-presence-in-latin-america/>