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"The Influence of Extra-Hemispheric Actors on the Crisis in Venezuela"

Chairman Duncan, ranking member Sires, distinguished committee members, thank you for the opportunity to share my work and thoughts with you today regarding the activities of extra-hemispheric actors in Venezuela and their contributions to the survival of its current regime. The views expressed in this testimony and responses today are my own, and do not necessarily represent the position of my employer, the U.S. Army War College.

The outcome of the ongoing crisis in Venezuela has strategic significance for not only the United States, but also for its global competitors, including Russia and the People's Republic of China (P.R.C.). Both countries have exploited the financial needs and political receptivity of the current Venezuelan regime to gain privileged access to that country's substantial petroleum reserves, mineral wealth, and markets, including for military goods. Reciprocally, Russian and Chinese purchases of Venezuelan petroleum, injections of capital, and other forms of support have exacerbated the current crisis by prolonging the life of the Venezuelan regime beyond the natural limits created by its poor management and anti-democratic practices.

The principal risk regarding Russian and Chinese activities in Venezuela in the near-term is that ***they will exploit the unfolding crisis, including the effect of U.S. sanctions, to deepen their control over Venezuela's resources, and their leverage over the country as an anti-U.S. political and military partner.***

Some type of political transition in Venezuela is likely in the foreseeable future, whether violent or otherwise. Indeed, I believe that both Russia and China would welcome a change in leadership in Caracas, but have fundamentally different objectives from the U.S. through their own engagement in Venezuela, regarding ***what the government should change to.*** While the U.S. must be prepared for the violence and exodus of refugees produced by a breakdown of order in the country, it must also be vigilant against a transition which attempts to replace an unstable, undemocratic regime, with a ***better managed, superficially democratic one*** that is closely aligned with, and deeply dependent on Russia and China.

In my testimony today, I will highlight the activities of both the P.R.C. and Russia in Venezuela, including their role in sustaining the present regime, concluding with recommendations for U.S. policymakers regarding how to structure sanctions, other actions, and strategic communications regarding Venezuela so as to most rapidly achieve a transition back to democracy and rule of law, while minimizing the opportunities for Russia and China to exploit the crisis to expand their economic position and political influence over the country.

People's Republic of China

Between Russia and China, it is the P.R.C. which holds the greatest leverage over the fate of the Venezuelan regime, particularly as its access to conventional financial markets and oil sales are reduced by U.S. sanctions. Specifically, the P.R.C. has the money to lend, and controls financial instruments, works projects, and flows of goods in Venezuela important to the regime's survival.¹

With respect to finance, the P.R.C. has become Venezuela's principal banker. In August 2014, the Venezuelan national oil company PdVSA, which is legally more

vulnerable to the seizure of its global assets than the Venezuelan government, moved its primary banking relationships for petroleum current accounts from the Banco Espírito Santo, in Portugal, to China's CIC Bank.²

In addition, since at least 2011, it is believed that the Venezuelan government has maintained a portion of its gold reserves in the P.R.C.³

Both actions partially protect Venezuela's assets from international legal claims, but also give China influence over Venezuela through how it handles such claims. Thus, as international legal judgements against PdVSA accumulate in international courts, such as that recently awarded to Crystallex, with associated legal authorizations to seize PdVSA's assets abroad as payment,⁴ Chinese financial institutions (with the commitments they have made to follow the rules of the international banking system), will face important decisions regarding how to respond to legal claims regarding assets of PdVSA and the Government of Venezuela, over which they have control.

Beyond gold and current accounts, the P.R.C. is also both Venezuela's principal source of credit, and a key source of a broad range of goods and services fundamental to the economic sustainability of the regime, and its ability to compensate its support base.

The key feature of China's role in the long-term sustainability of the regime is often-mischaracterized revolving credit relationship known popularly as "loans for oil." On one hand, Chinese financial institutions, principally China Development Bank, provide the Venezuelan government a line of credit for products and services principally provided by Chinese companies. When these are delivered, the Chinese suppliers can directly bill, and be paid in Chinese currency (RMB) from Venezuela's line of credit in the Chinese bank. Thus, as long as the Venezuelan government formally acknowledges signs off on receipt of the goods or service (which has not always been the case⁵), the Chinese company can feel secure that it will be paid in a timely fashion.

To pay down Venezuela's line of credit, oil is extracted from Venezuelan oilfields operated as China-PdVSA joint ventures,⁶ including the Sinovensa joint venture in the Orinoco tar belt. A Chinese company such as the CNPC subsidy China Oil legally takes

delivery of the product, (generally without it ever leaving Venezuela). Using the prevailing international price for the type of oil received, less a discount, the delivery is credited to Venezuela's account like a credit card payment, reducing its outstanding balance and making these funds potentially available to borrow again in the future, without negotiating a new loan instrument.⁷

Since 2005, Chinese banks may have extended Venezuela as much as \$62.2 billion, mostly through the previously described lines of credit.⁸ PdVSA has generally lived up to its obligations to provide oil to repay its loans to the P.R.C., although in the past year, it has fallen approximately 3-months behind on such oil deliveries to both China and Russia.⁹ Currently, PdVSA is providing CNPC subsidiary China Oil approximately 600,000 barrels of oil per day to pay down past loans, similar to the 741,000 barrels of crude oil sold by Venezuela to U.S. Gulf Coast refineries in 2016, for which PdVSA received hard currency.¹⁰

Because the repayment period of Venezuela's lines of credit with Chinese banks is typically short (generally 3 years for loan vehicles part of the Heavy Investment Fund), the total money still owed to the P.R.C. is less than many assume, possibly less than \$20 billion.¹¹ Moreover, because the Chinese essentially pump the oil by which they repay loans controlled by their own institutions, the P.R.C.'s risk of default is actually far lower than many assume.

Because the “loans-for-oil” revolving credit system is relatively secure, virtually all P.R.C.-based companies doing business in Venezuela have sought to tie their projects to these accounts, from constructing powerplants, railroads and other construction work, to providing Haier appliances for sale at a discount to poor Venezuelans under the government's program “my well-equipped home,” during the run-up to 2012 Venezuelan elections, and on an ongoing basis afterwards.¹²

During the current crisis, such credits have been instrumental in helping the Venezuelan regime obtain material to compensate regime supporters and respond to particular needs, yet have advanced Chinese commercial interests at the same time. A good

example is the sale of 5,239 JAC trucks in 2014,¹³ the last of which were delivered in 2016.¹⁴

As a part of such deals, the P.R.C. has periodically announced the intention to build factories in the country that would contribute to Venezuelan GDP. Examples include commitments by the automaker Chery,¹⁵ the bus manufacturer Yutong,¹⁶ and the cellphone makers Huawei and ZTE.¹⁷ Yet such deals, financed with *Venezuelan government credit*,¹⁸ have arguably benefitted Chinese commercial interests and local partners more than they have created sustainable benefits for the country. It is difficult to find an example of such a plant that is today actually employing Venezuelans and producing products in the country. Nonetheless, in anticipation of such factories which have often not materialized, Chinese vendors have been given privileged access to the Venezuelan market.¹⁹

With respect to supporting the long-term viability of the Venezuelan regime, as the majority of international companies have withdrawn from the country,²⁰ or have been forced out with their assets appropriated,²¹ the work performed by Chinese companies in sectors such as petroleum, construction, and energy has become increasingly critical for building and maintaining the infrastructure required for the Venezuelan government to maintain production in mature oil fields, to bring its considerable deposits of heavy oil in the Orinoco tar belt on line, and to get that oil market, in order to pay its bills and import the basic necessities of the Venezuelan people.

Beyond the economic relationship, the P.R.C. has also played an increasingly important role in supplying the Maduro regime with military support,²² including providing, on credit, not only conventional weapons systems and munitions, but also riot control vehicles and other equipment for helping the regime to put down protests.²³

While the P.R.C. has been cautious not to enter into a cold-war style alliance with Venezuela, in the past decade, it has quietly sold the Venezuelan military a wide variety of military equipment, surpassing even Russia in the past two years as an arms provider.²⁴ Major conventional systems that it has sold to Venezuela include JYL-1 radars, K-8 fighter-trainers,²⁵ Y-8 and Y-12 military transport aircraft,²⁶ as well as more

sophisticated L-15 fighters²⁷ (not yet delivered). Orders placed with the P.R.C. since 2013, according to the Venezuelan government's own records, include SM-4 self-propelled mortars and SP-5 multiple rocket launchers, VN-1 8x8 infantry combat vehicles,²⁸ VN-18 and CS/VP4 amphibious vehicles,²⁹ and CS/LMG heavy machine guns. The P.R.C. has also sold the regime HJ-73D anti-tank weapons, anti-submarine weapons for Venezuelan patrol boats,³⁰ potentially impacting neighboring Colombia, were a war to break out between Colombia and Venezuela as the situation in Venezuela deteriorates.³¹

Given the role of the regime's "Bolivarian National Guard" in suppressing protests in recent months, and the association of those activities with numerous injuries and fatalities,³² it is of significance that the largest portion of weapons supplied to Venezuela by the Chinese since 2014 have gone to that organization, including 6x4 trucks from the Chinese manufacturer JAC Tractor, and 9x19 Parabellum pistols.³³ Similarly, the VN-4 armored cars³⁴ and VN-16 light tanks³⁵ sold by the P.R.C. to Venezuela, and designed for riot control,³⁶ have arguably contributed to efforts by Venezuela's current regime to suppress democratic protests.

In addition to P.R.C. military support through providing arms on credit, the country also sponsors attendance by Venezuelan officers in courses at all levels in the P.R.C., from technical training to senior staff colleges, as well as including Venezuelan personnel in the conduct of exercises in the P.R.C.³⁷ Indeed, most recently, the P.R.C. brought Venezuelan paratroopers³⁸ to Xinjiang to participate in the "Clear Skies" portion of the multi-national military exercise being held in China in September.³⁹ The PLA, for its part, has sent Chinese soldiers to participate in training activities in Venezuela, as well as the country's Independence Day parade.⁴⁰

While Chinese arms and military engagement may provide some benefit in helping the Maduro regime to suppress protesters, and may compensate for a small amount of the dissatisfaction within the Venezuelan officer corps over the situation in the country,⁴¹ it is arguably the Chinese defense industry and the People's Liberation Army (PLA) which benefit most from such activities and transactions; Arms sales to Venezuela provide an

opportunity for the PLA to strengthen its political and military-to-military institutional relationship with the Venezuelan regime, improve P.R.C. defense products through field testing under challenging conditions, enhance the PLA's ability to conduct maintenance and training support outside of China with difficult foreign partners, permit it to assess and inculcate good will in Venezuelan officers going to the P.R.C. for training, and demonstrate to other Latin American and Caribbean militaries the products of the Chinese defense industry and the P.R.C.'s ability to support them, helping China to further penetrate the region's defense market with such products and reap the associated benefits, as described in this paragraph.

Finally supplying Venezuela's populist regime with resources for internal security and conventional warfare, the P.R.C. has also played a dominant role in the creation of Venezuela's space sector. Chinese contributions include the construction and launch of two satellites for Venezuela: Venesat 1, launched in October 2009 from China's Xichang Launch Center,⁴² and the earth observation satellite VRSS-1, launched in October 2012 from the Jiuquan Launch Center.⁴³ The P.R.C. has also played an important role in building and equipping the ground communications facilities for those satellites,⁴⁴ including the Manuel Rios base in Guarico, and the Luepa facility in Southeastern Bolivar state,⁴⁵ as well as training the Venezuelan personnel to operate and administer those facilities.⁴⁶

In the extreme case of a protracted military conflict with the P.R.C. in Asia, PLA experience with Venezuela's military, the technical characteristics of its ports and airfields could facilitate the transition from the absence of Chinese "military bases" in the Western Hemisphere, to PLA use of Venezuelan facilities more rapidly than is commonly assumed.⁴⁷

With respect to the overall relationship, as the medical decline of Hugo Chavez in 2012, and his death from cancer in 2013 cast the continuity of Venezuela's "Bolivarian Socialist" regime into question, the P.R.C. became notably more cautious in extending new lines of credit and appeared to demand more oversight and conditions on projects agreed to under existing lines of credit.⁴⁸

As an indication of its concern, the P.R.C. has engaged in informal talks with individual members of the Venezuelan opposition, presumably seeking guarantees that any future government would honor past contractual commitments and loan obligations.⁴⁹ Yet while the Chinese may be seeking to hedge their bets, the modest size of its outstanding debt by comparison to its broader financial portfolio (including its \$814 billion Sovereign Wealth Fund⁵⁰), its commercial interest in favorable access to Venezuela's 300 billion barrels of recoverable oil,⁵¹ and its strategic interest in the survival of an anti-U.S. regime in close proximity to U.S. shores, makes the P.R.C. unlikely to take any action that would support the resolution of the crisis on terms favorable to the U.S.

Despite such increasing caution, the P.R.C. has nonetheless quietly continued to prop up the Venezuelan regime by funding new goods and projects from the available credit on existing loan vehicles. Indeed, during a recent meeting of the China-Venezuela High-Level Mixed Commission,⁵² the two nations signed 22 agreements involving \$2.7 billion in projects, including construction of the Jienyang refinery to process Venezuelan heavy oil.⁵³ The latter is a particularly egregious example of how the P.R.C. is using the Venezuelan regime's desperation and mismanagement to its benefit. At a moment when the regime is struggling to make loan payments and avoid default month-to-month,⁵⁴ and lacks the capital to build the infrastructure to get its own oil out of the ground, the P.R.C. is obliging PdVSA to incur potentially billions of dollars in new debt to construct a refinery *in the P.R.C.*

Russia

Russia's activities in Venezuela have been more limited than those of the P.R.C. in terms of dollar volume and the range of activities, yet are still significant. Beyond providing political and moral support to the Maduro regime,⁵⁵ such as criticizing U.S. sanctions against Venezuela⁵⁶ and countries which did not recognize Venezuela's new Constituent Assembly,⁵⁷ Russian engagement has principally concentrated on arms sales, military exercises, and investments in the petroleum sector.⁵⁸

For Russia, which had largely been absent from Latin America and the Caribbean since the collapse of the former Soviet Union, Venezuela initially seemed an unlikely partner to serve as the cornerstone of the nation's re-engagement with the region. By contrast to Russian Cold War allies Cuba and Nicaragua, Venezuela and its military had been close partners of the U.S. during the period. Yet in 2006, Venezuela presented Russia with an opportunity, which it exploited, to take its first major step to re-insert itself into the region's security affairs; when the U.S. refused to sell Venezuela spare parts for its U.S.-supplied F-16 fighters,⁵⁹ and moved to block Venezuela from buying military equipment with U.S. components from Spain,⁶⁰ Russia struck a deal with then Venezuelan President Hugo Chavez to supply the country with a range of military equipment from Su-30 fighters⁶¹ to Mi-17 transport helicopters, to rifles and munitions.⁶²

Venezuela ultimately purchased over \$11 billion in military goods through the Russian arms sales and support organization Rosboronexport.⁶³ These purchases loosely fall into three groups:⁶⁴

The first major deal, initiating the relationship, was comprised of military helicopters, fighter aircraft, and Kalashnikov rifles.⁶⁵ Russia provided 53 helicopters in this agreement, including both combat and transport platforms. These included 10 Mi-35M2 attack helicopters, and 38 Mi-17V-5 transports, and 3 Mi-26T2 heavy transports.⁶⁶ The package further included 24 Su-30 fighter aircraft,⁶⁷ plus 100,000 Kalashnikov rifles, as well as a 2006 agreement to build a factory in Venezuela to manufacture more such rifles and ammunition.⁶⁸

The second group, with contracts announced roughly from 2008 through 2011, included a broader range of weapon.⁶⁹ Notable items in this group are 92 T-72B1V tanks,⁷⁰ approximately 200 BMP-3 and BTR-80 armored personnel carriers,⁷¹ 12 9K58 Smerch multiple rocket systems, 2 S23 120mm self-propelled mortars, 12 Tor-M1 self-propelled air defense systems, Zu-23 anti-aircraft guns, Igla-S man-portable surface-to-air missiles,⁷² Bal-E mobile coastal defense missile systems, and Buk-2ME and S-300VM Antey-2500 mobile anti-aircraft

missile systems.⁷³ It is not clear that all of these systems and munitions were ultimately delivered.

The third group occurred during the period in which then President Hugo Chavez's health was deteriorating, and the economic crisis in Venezuela was deepening, with the consequence that only a portion of the deals were actually consummated.⁷⁴ Announced arms sales include an additional 100 T-72 tanks,⁷⁵ as well as fast attack boats, submarines, and Yak-130 fighters to replace Venezuela's aging F-5s,⁷⁶ and 10 Mi-28 NG attack helicopters.⁷⁷ Due to the quantity of Russian helicopters in Venezuela, and the delays involved in sending the platforms or major components to Russia for inspections repairs and upgrades, Russia and Venezuela have also discussed setting up a helicopter maintenance center in the country.⁷⁸ This has, however, not yet taken place.

Also of importance at a time when corruption in the Venezuelan regime is facilitating the diversion of its military weapons to black markets throughout the world,⁷⁹ since 2008, Russia has sold Venezuela between 2,000⁸⁰ to 5,000⁸¹ man-portable Igla-S (Sa-24) anti-aircraft missiles, which could present a significant threat to civil aviation if they fell into the hand of terrorists.⁸²

As noted previously, Russia's arms sales to Venezuela, while significant, have been negatively impacted by the nation's deepening financial crisis, which has been reinforced by limits on Russia's own ability to extend Venezuela large amounts of credit to purchase those arms. For example, although in 2015 the Venezuelan regime ordered 13 Su-30 Mk2s⁸³ to supplement the 24 Su-30s it had already purchased from Russia,⁸⁴ the \$480 million deal was never consummated, and the funds were reportedly diverted to the maintenance and overhaul of the existing Su-30 fleet.⁸⁵

Beyond arms sales, Russia has collaborated with Venezuela in manner far more directly threatening to the United States, than has the P.R.C., arguably using exercises and other activities with Venezuela to send strategic messages to the United States that if the U.S. involves itself in Russia's "near abroad," then Russia is willing and able to project military force in the U.S. own "backyard."⁸⁶

Russia began such provocative engagements with Venezuela in August 2008, when separatists that it was backing in the Republic of Georgia began a civil war that prompted the U.S. Navy to deploy forces in the Black Sea, in close proximity to Russia itself. To show its displeasure, Russia sent 2 nuclear-capable Tu-160 “backfire” bombers,⁸⁷ and later, a naval flotilla lead by the Russian destroyer Peter the Great, to conduct exercises in the Caribbean.⁸⁸ Russia again sent two Tu-160s to the region in October 2013 as tension with the U.S. and Europe grew over Russian intervention in its neighbor the Ukraine.⁸⁹ Later, in March 2015, as the Ukraine crisis continued to escalate, and in an echo of Russian actions in 2008, the nation sent warships to conduct exercises with Venezuela, again in the Caribbean.⁹⁰

Beyond such symbolically charged deployments to the Caribbean, Russia has also hosted the Venezuelan military in various exercises and other events in Russia itself.⁹¹

Turning from Russian military engagement with Venezuela to its commercial support, Russia has been a principal source of financial resources for the Venezuelan regime through its activities in the Venezuelan oil sector, second only to the P.R.C. Increasingly, that support has been channeled through one Russian state owned company, Rosneft, headed by sometimes Putin ally and former senior Russian intelligence operative Igor Sechin.⁹² Rosneft has provided has an estimated \$17 billion in financing and investment to Venezuela’s populist regime since 2008.⁹³ While a number of major Russian companies including Gazprom, Lukoil, TNK, and Surgutneftegaz initially pursued projects in Venezuela including exploration and development of the Junin-6 petroleum block in the Orinoco tar sands,⁹⁴ poor results and frustrations dealing with the Venezuelan state led the more commercially-oriented of the Russian oil companies to pull out, with their shares often being bought up by Rosneft.⁹⁵ Other Russian companies indirectly involved with the Venezuela oil sector have had similar problems. In April 2017, for example, one such company seized a Venezuelan oil shipment in St. Maarten for repayment of overdue shipping fees.⁹⁶

By contrast to more commercially oriented Russian companies, between 2010 and 2014, Rosneft significantly expanded its stake in the country,⁹⁷ investing \$1.8 billion to

acquire or expand stakes in joint ventures with PdVSA, including Petromiranda, Petromonagas and Petrovictoria.⁹⁸ In 2015, Rosneft committed to expand its investments in the country including growing its stake in Petromonagas from 16.7 to 40%.⁹⁹

Beyond its onshore Rosneft also made initial commitments to participate in the development of natural gas off Venezuela's coast in the Mariscal Sucre field. That investment alone, if realized, could inject an additional \$17.9 billion into the country.¹⁰⁰

As the liquidity crisis in Venezuela has deepened, in order to protect its investments, expand its position, and help keep the Venezuelan regime afloat, Rosneft has injected approximately \$6 billion into the country's oil sector in the form of advance payments for future oil deliveries,¹⁰¹ including at least \$1.015 billion provided this year.¹⁰² Such injections of cash are in addition to making a widely-publicized \$1.5 billion loan in December 2016, in return for 49% interest in the holding company portion of the company's U.S. subsidiary CITGO.¹⁰³ While the funds from Rosneft arguably helped PdVSA avoid bankruptcy, PdVSA's previous commitment of 51% of CITGO's assets in September 2016 to back a bond swap,¹⁰⁴ may have set up a future fight over the company's assets between Rosneft and those who signed onto the bond deal that could lead to legal orders for asset seizures and other actions impacting PdVSA's operations and ability to generate capital, if it finally does default on its loan obligations.

Further adding to Rosneft's problems, its claim on CITGO is uncertain, since the U.S. Committee on Foreign Investment in the United States (CFIUS) is likely to review, and could reject the deal.¹⁰⁵ To manage such risk, Rosneft is reportedly negotiating with PdVSA to swap its equity in CITGO for expanded stakes in Venezuelan oilfields,¹⁰⁶ including a possible stake in the joint venture Petropiar, worth \$600 - \$800 million.¹⁰⁷

Recommendations for the U.S.

To most effectively fight for the interests of the Venezuelan people, and the interests of the United States in Venezuela and the region, it is important to apply a whole-of-government strategy, oriented toward restoring democratic governance to Venezuela

and bringing to justice those who have illicitly profited from the country's descent into authoritarianism and economic chaos during the last 18 years of populist rule. At the same time, it is critical that the structure and pace of that plan, and the strategic communication associated with it, minimizes the opportunity for Russia and China to exploit the situation to advance their own commercial and long-term advantage.

In structuring sanctions and other actions and communications regarding Venezuela, U.S. policymakers must recognize that the decision of Russia and China to support, or alternatively, work to undermine, a transition toward democracy in the country, will be influenced by what type of transition or outcome is possible. Beyond appearances, Russia and China are unlikely to truly work toward restoration of democracy and rule of law in Venezuela if they believe that their continued political, economic and military support for its populist regime can enable and guide a transition to a more economically rational, but still anti-U.S., regime, that could be sufficiently accepted by a weary international community, so as to escape from sanctions and legal claims, and able to reintegrate itself into the international financial system and oil economy, with Russia and China holding a major stake.

The United States and others in the international community must thus structure its sanctions, other actions, and strategic communications to convince Russia and China that they will not be able to achieve such an end state, locking in the economic and political position they have achieved in the country to date through a false transition validated by the international community. U.S. actions and communications must convince Russia and China that their best option is to cooperate with the U.S. to achieve a stable, rule-of-law regime in which they will have the opportunity to achieve an equitable commercial position, rather than to work against such a transition as the regime collapses, with the likelihood of incurring grave losses to their current operations in the country, and with great uncertainty about the future.¹⁰⁸

Based on these principles, I support the continuation and progressive escalation of sanctions against the current Venezuelan regime and specific individuals who have contributed to, and illicitly profited from the hijacking of Venezuelan democracy. Such

sanctions should be coupled with a strong message to Russia and China that we will actively oppose the honoring of contracts granted without the role of Venezuela's constitutionally legitimate, elected national assembly,¹⁰⁹ and that we will not lift sanctions without a clear restoration of Venezuela's democratic order, to include active cooperation by the successor regime with efforts by the U.S. and rest of the international community to bring to justice those who are known to have committed crimes under Venezuelan, U.S. and international law.

- U.S. policymakers should continue to establish clear “red lines” regarding the behavior of the Venezuelan government, and should implement progressively broader sanctions as it crosses them, against the purchase of Venezuelan petroleum and the regime’s access to the international financial system. Importantly, such sanctions should not exclude actions that impair the ability of PdVSA to obtain short-term credits for routine petroleum transactions, and even those that affect U.S. Gulf Coast refineries and CITGO. While the United States rightfully does not wish to deepen the suffering of the Venezuelan people or harm its own businesses, the rapid escalation of broad sanctions is the best among imperfect options, insofar as that this approach has the best prospect of most rapidly ending the suffering of the Venezuelan people. In addition, implementing broad sanctions quickly, in a form that rapidly generates significant impacts, denies Russia and China time to advance their position in Venezuela through incrementally negotiating deals with Venezuelan governments to cede national assets and claims over the country’s resources in exchange for quick cash, as the regime becomes more desperate. In addition to such technical considerations, from a strategic communications perspective, the U.S. message will be more compelling among Venezuelans, and within the international community, if the U.S. is not perceived as deliberately choosing less effective sanctions in order to avoid imposing costs on its own companies.
- In parallel with sanctions, the U.S. must coordinate with its partners in the region, and global institutions more broadly, to deny legal status to deals signed between Russia and China (among others) and Venezuelan government entities, which

are inconsistent with the procedures established by the nation's constitution and laws, including where approval is required for such an agreement, but where it has not been granted, by Venezuela's legitimate, democratically elected National Assembly.

- Concurrent with a continued and deepening sanctions regime, the United States should also coordinate with its partners in the region to manage the effects of expanded refugee flows and criminal activity emanating from the collapse of the country's economy and expanding criminality, political violence, and repression there.¹¹⁰ Such coordination should be particularly focused on those countries most affected or least resourced to address the challenge,¹¹¹ including Colombia, Trinidad and Tobago, Aruba, Bonaire, Curacao, and the Dominican Republic. This is particularly important, given that several countries in the Greater and Lesser Antilles have also recently been severely impacted by the passage of Hurricane Irma.
- As part of its pressures on the Venezuelan regime, the U.S. should not, as a principle, offer amnesty to members of the current government in exchange for their cooperation in a transition to democracy, except where strictly necessary to develop criminal cases against more senior officials. While offers of amnesty might accelerate the fall of the Maduro presidency, it would fundamentally undermine the long-term goal of establishing a stable democracy in Venezuela, built around the (now deeply shaken) faith of the Venezuelan people in their government. Political change achieved with the help of amnesties would leave in place a residual element of corrupt leadership and perceptions of impunity in the country even worse than in the pre-populist period. Indeed, such amnesties would send a dangerous signal to those on the right or left in other countries, considering similar strategies of hijacking a state for their own benefits, that the ability of the U.S. to protect democracy and the rule of law in the region is severely limited. Moreover, such amnesties would arguably advance a perception of the U.S. as morally equivalent to China, Russia, and other actors

pursuing their strategic interests, and would thus undermine U.S. efforts to be the partner of choice in the region.

- Finally, to the extent that regime change produces a real return to representative, democratic government in Venezuela and accountability for those who have enriched themselves by hijacking the state, the United States should be prepared to help the new government to succeed. Insofar as that Venezuela is a resource rich country, such assistance does not require large-scale development funding, but rather, helping the new government to purge, reform, and professionalize its military, law enforcement, judicial and other government institutions, in order to restore the confidence of the people, to provide support for the establishment of a new legal and investment framework that would encourage the return of foreign companies and Venezuelan expatriates in a short time horizon, and thus, to begin re-developing the national economy.

What happens in Venezuela, for good or bad, affects the United States. There is no inherent reason why Venezuela cannot be an independent, internationally-engaged well-governed actor, whose own strength and prosperity contributes to the success of the U.S. and the region. It is in the interest of the United States, as well as the Venezuelan people, to work in the most expeditious form possible toward that goal.

¹ See R. Evan Ellis, “China, Russia Increase Leverage in Venezuela Amidst Crisis,” *Newsmax*, September 7, 2017, <https://www.newsmax.com/EvanEllis/venezuela-crisis-china-russia/2017/09/07/id/812212/>.

² “PDVSA switches to China Citic Bank from Portugal's BES -document,” *Reuters*, August 8, 2014, <http://www.reuters.com/article/venezuela-oil-banks/pdvsa-switches-to-china-citic-bank-from-portugals-bes-document-idUSL2N0QE21V20140808>.

³ “WSJ: Venezuela Moves Billions Into Gold, China, Russia,” *Newsmax*, August 17, 2011, <http://www.newsmax.com/finance/Markets/Venezuela-Gold-China-Russia/2011/08/17/id/407690/>.

⁴ Michael Place, “Venezuela's PDVSA to fight Crystallex seizure bid,” *Business News Americas*, <https://bnamericas.com/en/news/miningandmetals/venezuelas-pdvsa-to-fight-crystallex-seizure-bid>.

⁵ The author has personally spoken to multiple Chinese businessmen who speak of difficulty in getting the Venezuelan government to officially sign off on goods and services provided, so that the Chinese company can submit its bill to the Chinese bank to be paid.

⁶ For an explanation of the arrangement, see R. Evan Ellis, “China, Russia, India and the Venezuelan Petroleum Industry,” *Latin Business Chronicle*, December 11, 2013, <http://www.latinbusinesschronicle.com/esp/article.aspx?id=6660>.

⁷ This does not, however, mean that the Venezuelan government can automatically borrow these funds again without coordination with the Chinese government. Moreover, it does not appear that the Venezuelan government can readily obtain these funds as cash, or for projects not agreed to by the Chinese. Based on author discussions off the record with Chinese and Venezuelan subject matter experts.

⁸ “China-Latin America Finance Database,” Inter-American Dialogue, http://www.thedialogue.org/map_list/, accessed September 5, 2017.

⁹Marianna Parraga and Brian Ellsworth, “Venezuela falls behind on oil-for-loan deals with China, Russia,” *Reuters*, February 9, 2017, <https://www.reuters.com/article/us-venezuela-oil-insight/venezuela-falls-behind-on-oil-for-loan-deals-with-china-russia-idUSKBN15O2BC>.

¹⁰ “Petroleum and Other Liquids - U.S. Imports by Country of Origin,” Energy Information Administration, https://www.eia.gov/dnav/pet/PET_MOVE_IMPCUS_A1_NVE_EPC0 IMO_MBLPD_A.htm, Accessed September 5, 2017.

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