

8,840 views | Apr 5, 2019, 01:31pm EDT

Watch For More Russia Sanctions If Putin Helps Maduro Stay In Control Of Venezuela



Kenneth Rapoza Senior Contributor 

Markets

I write about business and investing in emerging markets.



Venezuela's President Nicolas Maduro speaks during his "Anti-Imperialist Rally for Peace," in... [+]
NATACHA PISARENKO/ASSOCIATED PRESS

It has become increasingly clear that Vladimir Putin is not going to let the U.S. take its Middle East regime-change policy to Venezuela.

Outside of a loyal Venezuelan military, the Socialists United leader and the country's president, Nicolas Maduro, is protected by criminal gangs called *Colectivos* and by the Russians. The U.S. government has estimated that

there are nearly 100 Russian soldiers there. The presence of Russia's military in Venezuela, in any capacity, is Putin putting up a detour to U.S. plans to get rid of Maduro.

As of now, it still looks like Maduro is not going anywhere despite support from at least 50 countries calling for his ouster. Venezuela can barely keep the lights on. It won't be able to sell crude oil to the United States as of April 28. And the people survive on government handouts and dollars sent via Western Union from the 3 million-plus Venezuelans living abroad.

Today In: [Markets](#) ^

Anger Towards China Grows The Longer The Coronavirus Lockdowns Last

Instead Of Bailing Out The Oil Patch, Maybe Our Government Should Give Everyone Vouchers To Use At Gas Stations

Treasury Department Will Relaunch A 20-Year Bond To Keep Up With Massive Deficits And Trillions In Stimulus Spending



Supporters of President Nicolas Maduro at a counter-rally against self-proclaimed president and... [+]

Russia now faces the risk of ticking off the U.S. Senate again, a Senate that has a penchant for hitting them with sanctions ever since Trump was elected. The last sanctions law cited “election meddling,” [poisoning a former Russian spy named Sergei Skripal](#) in the U.K., and Russian backing of Syrian leader Bashar Assad as reasons for sanctions against Russian banks and energy firms.

What once began as sanctions for punishing Russian aggression towards Ukraine has moved well beyond that. If Maduro sticks around longer than most people hope, and if the Russian government is seen as aiding that, investors should look for another round of sanctions designed to punish Russia for its role in Venezuela.

“Could Rosneft get hit with new sanctions? I think yes,” says Jay Auslander, an attorney who represents PdVSA bondholders at Wilk Auslander in New

York. Rosneft is Russia's biggest oil firm. It now owns 49.9% of Citgo, the refinery and gasoline station brand owned by PdVSA.

A midsized Russian bank called Evrofinance was sanctioned recently for helping Maduro set up a new cryptocurrency called the Petro. Those sanctions show Washington is ready to loop Russian into its Venezuela sanctions regime. So long as Russia is seen keeping Maduro in power, Russian companies face additional threats.

“We are underweight Russia. Given the political risks and the currency risks, we are out,” says Andrew Miller, CIO for emerging market equities at Mondrian Investment Partners in London.

See: [Russia Takes Its Syria Anti-Regime Change Strategy To Venezuela](#) — Forbes



Russian President Vladimir Putin sees Washington overreach in Venezuela, just like he did in Syria....
[+]

Venezuela's economy got hit with its harshest sanctions yet this January. Oil firm PdVSA bonds were sanctioned, banning Americans from trading them in the secondary market. Crude oil sales had to be wound down.

Last week, Venezuela went on an energy-rationing program following back-to-back blackouts in major cities like Caracas. PdVSA was unable to produce oil without power to pump it out of the ground.

The loss of oil production means fewer dollars coming into PdVSA, Venezuela's flagship enterprise. Venezuela's crude output, one of the last remaining legal sources of cash for the ruling Socialists United Party, has declined by 60% since 2002, when its production level was at its lowest in a decade due to a workers strike. PdVSA is now near those production levels.

Russia has been throwing money into Venezuela's black hole for the past five years. Rosneft is the biggest Russian corporate investor there and is a potential target in new sanctions.

The U.S. moved against Maduro after he was sworn in to a second term in January. National Assembly president Juan Guaido declared himself interim president until new elections can be held, something Maduro immediately scoffed at.

Shortly after Guaido's announcement, the Organization of American States shared its concern about Maduro, saying he was not the legitimate leader of the country after his Supreme Court banned leading opposition figures from the ballots last May.

Brazil president Jair Bolsonaro was the first regional leader to call Maduro a dictator and said he would not be recognized by Brazil as the Venezuelan president. And within a week, President Trump said Guaido was the true president of the country, basing that opinion on the Venezuela constitution, which gives the National Assembly president powers in the case of a weak presidency. Fifty countries agreed.

Under Maduro and the Socialists United, Venezuela has become both a failed state and a pariah state. While it does not possess the same foreign policy intrigues as the Syria fiasco, which saw Putin put his foot down to stop regime change there, Russia's involvement is salt in the wound for a U.S. unable to show Maduro the door.

Trump was never a fan of the Syria policy, a policy which carried over from President George W. Bush and was put into overdrive under President Barack Obama. But Venezuela is all Trump's. Getting tough on Maduro looks good for the Latino population in south Florida, many of whom are Cuban and Venezuelan-Americans who cannot stand Maduro. Many of them also vote Republican.

If Putin dashes Guaidó's hopes to force Maduro to step down in favor of new elections, Russia may yet suffer the consequences. How harsh will they be?

"If the U.S. goes after Rosneft again, I don't think they will treat their bonds the same way PdVSA bonds are treated," says Auslander. Americans are banned from trading PdVSA bonds, even in the secondary market, unless they are being sold to foreigners. "Rosneft and Russian securities are just a much bigger market than Venezuela to install trading halts. Washington's goal is to punish Maduro and get a new government in place. Punishing Rosneft bondholders doesn't help their cause."