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Venezuela Threatens Guyana

Even though “Great Power” competition between big countries like the United States and China is once again the main source of tension in international affairs, smaller-scale tensions and conflicts involving regional powers still have the potential to disrupt key supply chains and escalate into broader wars. One such potential conflict these days involves Venezuela’s territorial designs on most of Guyana, its oil-rich neighbor to the southeast. This report explains the history behind this dispute and how it could unfold. As always, we wrap up the discussion with an overview of the potential investment implications.

What Is the Threat?

The Venezuela-Guyana crisis burst into the news in late 2023, when Venezuela’s legislature voted to hold a referendum on the status of the Essequibo region, which makes up the western two-thirds of Guyana (see Figure 1). [The government in Caracas has long claimed the region as Venezuelan territory, and many of Venezuela’s citizens see it that way as well.](#) Nevertheless, in recent decades, Caracas had shown considerable restraint in pressing its claim. The legislature’s call for a referendum, almost certainly under the direction of strongman socialist President Nicolás Maduro, was therefore a surprise.

Shortly after the referendum on December 3, [Venezuelan officials reported that voters had approved each of the five questions overwhelmingly, although the authorities](#)

[admitted that the participation rate was low.](#) Among the questions approved was one asking whether Essequibo should be considered a Venezuelan state and another asking whether its citizens should be granted Venezuelan citizenship.

Figure 1



Approval of the referendum gives President Maduro the legal cover to launch an attack or incursion on Essequibo whenever and however he wishes. [Nevertheless, Maduro’s first steps after the referendum focused on concrete administrative steps to put it into effect.](#) For example, these administrative steps included the following:

- Immediate legislative debate and approval of a bill creating a new state of “Guayana Esequiba” (Venezuela’s term for the Guyana territory).
- Creation of a new High Commission for the Defense of Guayana Esequiba.
- Creation of a Guayana Esequiba Comprehensive Defense Zone, with administrative and military headquarters in Tumeremo, a town in eastern Venezuela close to the border with Guyana.
- Designation of Maj. Gen. Alexis Rodríguez Cabello as the Sole Authority of Guayana Esequiba, with administrative and military headquarters in Tumeremo.
- Creation of a new Essequibo Division within state-owned oil company PDVSA and state-owned mining company CVG, with exclusive administrative and operational powers for the exploitation of natural resources in Guayana Esequiba.
- Publication of a new official map of Venezuela, including Guayana Esequiba, and ensuring it is sent to all schools, high schools, and universities in the country.
- Development of a comprehensive social plan for the inhabitants of Guayana Esequiba, including the provision of official Venezuelan identification cards.
- Establishment of a three-month period for the withdrawal of foreign companies/unilateral concessions in Guayana Esequiba.
- Creation of a Special Law for the protection of Essequibo.

In addition to these administrative steps, Maduro ordered state-owned firms to begin taking steps to drill for oil and exploit other

mineral resources in Essequibo. [Finally, Maduro ordered Venezuela’s armed forces to deploy to the border with Guyana and hold naval exercises near Guyanan waters.](#) In turn, Guyana has beefed up its police force in the border region, and the US armed forces quickly put together joint military exercises with Guyana’s tiny army. Since the Venezuela-Guyana border is covered by dense, nearly roadless forest, military analysts believe any Venezuelan attack might have to cross Brazilian territory. [The Brazilian military therefore responded by shifting troops and equipment north to the area laying between the two countries, raising the chance that any incursion might morph into a broader war.](#)

History of the Dispute

Present-day Venezuela and Guyana were both originally claimed by Spain in the 1500s. The Spanish considered Essequibo part of their Captaincy of Venezuela, but the region was settled by Dutch traders and plantation owners. When Venezuela gained its independence in 1811, it issued its claim on Essequibo but could not enforce it over the entrenched Dutch. Great Britain acquired Essequibo from the Dutch in 1814, but the treaty didn’t define the region’s western border. Therefore, when Britain combined Essequibo with two other territories to form British Guyana in 1831, the western border remained ill-defined.

In 1841, Britain surveyed a border that kept Essequibo as part of British Guyana, but Venezuela insisted that its territory should extend to the Essequibo River. The dispute simmered throughout the rest of the century. As the century drew to a close, the US pushed for an international tribunal to settle the question once and for all. In 1899, the tribunal (consisting of two US judges, two British judges, and one Russian judge) awarded about 90% of the disputed territory

to British Guyana. The Venezuelans were incensed by this decision, known as the “Paris Arbitral Award,” but they ultimately ratified it.

In 1949, a previously unknown memo was discovered that appeared to show that the Russian judge had pressured the US judges to approve awarding the land west of the Essequibo River to British Guyana. In 1962, Venezuela formally declared the 1899 decision invalid, reissued its claim to the territory west of the Essequibo River, and asked the United Nations to settle the matter. Since then, the dispute has been kicked around various UN bodies, but no solution has arisen. The Venezuelan government only started to pursue the claim with vigor again after the 2015 discovery of a major oil field in Guyanese waters.

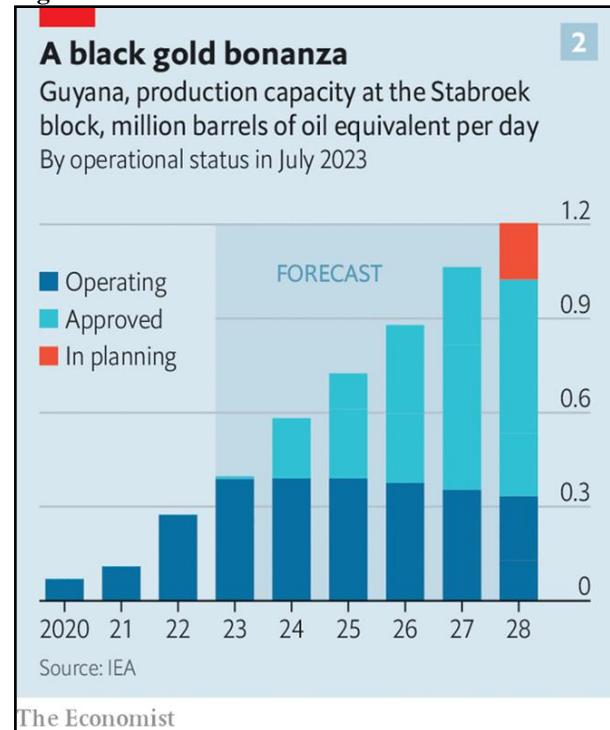
Why Is This Happening?

By all appearances, the Venezuelan government has launched its Essequibo gambit for several interrelated reasons. We examine each of the main reasons below.

Guyanese Oil. As noted above, one driver behind Venezuela’s renewed claim was the 2015 discovery of big oil reserves in Guyana’s Atlantic Ocean territorial waters. The reserves are estimated at 11 billion barrels of oil, representing hundreds of billions of dollars of potential income. Plans already in place are expected to boost Guyana’s oil output from about 400,000 barrels per day now to as much as 1.2 million bpd by 2028 (see Figure 2). Even though Venezuela already has immense reserves of oil, its output has fallen under Maduro’s socialist government, and Maduro likely sees the Guyanan reserves as a way to potentially boost production again, if only Venezuela can secure the Essequibo territory and the associated rights to the waters off Essequibo’s coast. Indeed,

Venezuela’s latest push for Essequibo came shortly after Guyana held its first auction of oil leases in September 2023.

Figure 2



Electoral Politics. Besides Venezuela’s economic interests in Essequibo and its territorial waters, Maduro apparently sees political benefits in fighting for Essequibo. Despite years of US economic sanctions on Venezuela for its authoritarian practices, the Biden administration in 2021 and 2022 entered into talks with the Maduro government to ease the sanctions in return for Venezuela holding “free and fair” elections. For President Biden, the benefit of eased sanctions would be increased oil imports from Venezuela and a resulting decline in energy prices to help bring down the US’s politically toxic consumer price inflation at the time. For Maduro, the allure would be eased political prospects. Observers widely believe Maduro has resurrected and escalated the Essequibo claim to stoke nationalism and ensure he

will win the presidential elections now scheduled for July 28.

US Distraction. Finally, we believe Maduro's new push for Essequibo at least partly reflects an effort to take advantage of potential US distraction in the face of major crises elsewhere, especially Russia's invasion of Ukraine and Israel's war against Hamas in the Gaza Strip. In all likelihood, Maduro is calculating that US leaders don't have the bandwidth to deal with his threats to Essequibo. Instead, he is likely calculating that he can pressure Guyana enough that, with insufficient US support, it might acquiesce to Venezuela's claims or offer some kind of valuable concession.

Likely Outcomes

Venezuela would have an advantage in any head-to-head conflict with Guyana because of its greater population (30.5 million versus Guyana's 800,000) and its bigger military (123,000 active-duty troops versus Guyana's 3,400). Nevertheless, a large-scale attack on Guyana might well require an incursion into Brazil, which is an ally of Guyana and has already beefed up its defenses in the area. Both the US and the United Kingdom have also signaled they might provide military assistance to Guyana. Despite Venezuela's saber-rattling, we therefore think the most likely scenario is for Maduro to limit himself to threatening rhetoric, troop deployments, military exercises, and the like, but that he would not actually launch an incursion or attack.

Simply put, we doubt Maduro would risk exposing his military to defeat at the hands of the US, the UK, and/or Brazil. Rather, we think Maduro will merely continue his aggressive rhetoric and posturing until the July 28 elections. [Because of his government's recent moves to keep popular opponents off the ballot](#), Maduro is highly

likely to win those elections, at which point he can abandon his nationalistic drive and allow the issue to cool.

Investment Implications

At a high level, Venezuela's threatening stance against Guyana exemplifies the kinds of aggression and misbehavior that are prone to occur more often as foreign countries perceive the US to be hesitating or rethinking its role as the global hegemon. To the extent that foreign leaders sense they can "get away with it," they are likely to stake out increasingly aggressive claims on their neighbors in the years ahead. That seems especially likely for leaders who are more authoritarian. In any case, actions like these will probably increase the sense among global politicians, business leaders, and investors that the world is becoming more chaotic and dangerous. This will further contribute to "geo-economic" fracturing, friend-shoring investment and production, and focusing more on corporate resilience.

Given that Venezuela and Guyana are now both big players in the global oil market, any conflict between them could potentially boost oil prices. Actual warfare could certainly damage oil facilities, but given each side's limited power-projection capabilities, that may not be the main risk to supply. Rather, a Venezuelan attack on Guyana would probably prompt a snap-back in US economic sanctions against Caracas, as could a failure by Maduro to hold the "free and fair" elections he has promised. If such a return to sanctions occurs, global oil prices could rise. In turn, that could produce a rebound in consumer price inflation and force the major central banks to further delay their expected interest-rate cuts, with negative impacts on the value of risk assets.

Patrick Fearon-Hernandez, CFA
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