

12-1-2011

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Inter-American Dialogue's Latin American Energy Advisor

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Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "Will PetroCaribe Expand Beyond Preferential Oil Purchases?." (2011). https://digitalrepository.unm.edu/la_energy_dialog/88

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Q and A: Will PetroCaribe Expand Beyond Preferential Oil Purchases?

Citation: Inter-American Dialogue's Latin American Energy Advisor, December 1, 2011; pp. 1, 3-4. Also online at www.thedialogue.org.

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At a PetroCaribe ministerial meeting in Nicaragua in October, officials from the countries involved in the Venezuela-sponsored initiative concluded agreements on more than \$16 billion in new investment, EFE reported. The agenda also sought to expand the scope of PetroCaribe beyond just preferential oil purchases, including possible projects addressing electricity, renewable energy and food security. What is the reasoning behind the expansion into projects beyond the initiative's original scope? How much of a benefit has PetroCaribe been to its signatories? Is PetroCaribe achieving Venezuela's political aims, and will it take on increasing importance over time?

A: Anton Edmunds, president and CEO of The Edmunds Group:

"Any real expansion of the scope of PetroCaribe into electricity, renewable energy and food security may well be an effort to respond to and counterbalance initiatives such as the Energy and Climate Partnership of the Americas (ECPA), unveiled by U.S. President Obama at the 2009 Summit of the Americas. Interestingly, the resurgence of the Department of State in the energy arena is seen by some as further evidence of the reemergence of the politics of energy in the hemisphere. Considering the global economic climate, PetroCaribe has served to grant many governments in the region a certain amount of financial flexibility. While many, including signatories, argue that Venezuela has not yet attempted to convert the PetroCaribe agreement into political gain, the real answer may well be that it has not yet had to. Evidence of Venezuela's political clout through PetroCaribe, it can be argued, may be seen in the fact that signatories may now be finding themselves with no option but to embrace the broadening of the agreement beyond its initial scope. The question to be asked is what other industries and policy areas may be next? The hope is that signatories will not allow this 'scope creep' to distract them from addressing current issues such as monopolistic arrangements that exist in power generation, weak policies that discourage investment in alternative energy, lack of effective land use policy and the absence of standards that allows substandard technology into the market. While Venezuela has had success in areas such as alternative energy, signatories must resist dependency on a PetroCaribe arrangement that may end up allowing for the replacement of existing monopolies with others and worse, serve to further close their markets to the interested investing community."

A: Horacio Medina, vice president of Entorno Energético and former operational agreements general manager at PDVSA:

"In the first place, I think it is necessary to express that PetroCaribe cannot be considered a commercial enterprise. Its connotation is eminently political and commits the signatories to express automatic solidarity with Venezuelan proposals and positions within the Organization of American States and in reference to the Latin American and the Caribbean political concert. On the other hand, we should not have any doubt that these countries have benefited from this initiative, perhaps not to the extent that it purports to show, but they receive benefits from providing products that result in savings of foreign exchange. These benefits have helped to stabilize the Caribbean and Central America, which also leads to benefits for the United States from a geopolitical and economic standpoint. Finally, it is well known that the countries that have shown political commitment to the Venezuelan government have received greater benefits. This includes Nicaragua, Honduras (under Zelaya) and Cuba, in contrast with countries like Costa Rica and Honduras (under Lobo). Financing projects to build new refining capacity without any kind of economic or commercial benefit for Venezuela represent a reward for the loyalty and unconditional support they have given to Venezuela's government. New investments look very ambitious but unlikely, except the Matanzas refinery, which has already started with a loan from China guaranteed with oil from Venezuela. To conclude, for its members, PetroCaribe means great economic benefit and a loss of political independence. For the sponsor, it means a big economic loss, but political gain and a better international image."

A: Asdrúbal Oliveros, director of Ecoanalítica in Caracas:

According to PDVSA, the point of PetroCaribe is to help level the playing field in terms of countries' access to energy resources by creating an exchange scheme that is 'favorable, equal and just' for all the countries participating, with PDVSA being its main and only supplier. Then, when the volume of crude oil and byproducts going to these member countries began to increase, the company line was that PDVSA was engaged in a strategy to diversify the markets it supplies. At Ecoanalítica, we have calculated the approximate value of Venezuelan oil exports to PetroCaribe member countries and thereby calculate the portion that has been financed according to the regulations established in the agreement pertaining to financing. First we used export volumes reported by PDVSA (170 kb/d on average) in its audited balance statements and the average price of the Venezuelan oil basket in order to obtain a bill for oil/byproducts received by each member in PetroCaribe. In the period between 2006 and 2010, total exports to PetroCaribe members reached around \$19.4 billion. PDVSA's accounts receivable balance from these member countries at the close of 2010 reached \$7.6 billion, which is up by \$1.26 billion (23.3 percent) compared to the close of 2009. This amount represents more than 45 percent of all accounts receivable, and exports to these member countries does not surpass 8 percent of total Venezuelan exports. These results seem to indicate that, with respect to PetroCaribe, these agreements are not PDVSA's best option when it comes to 'diversifying its markets.' As we have stated a number of times, exchanging a client that pays its bills in a timely manner (the United States and Europe) for one that may be your friend and have the best intentions, but with almost no possibility of making payment, even with the beneficial agreement you are giving them, is just adding dead weight to PDVSA. In these hard production times, this becomes very costly for

the company. But, as we have seen before, it seems that in the Chávez administration, political gain is more important than economic gain."

A: Anthony T. Bryan, senior associate in the Center for Strategic and International Studies and a senior fellow at the University of the West Indies in Trinidad and Tobago:

"The plans and projects announced at the PetroCaribe ministerial meeting in Nicaragua last month are ambitious. The most notable are those to build new oil refineries in Cuba and in Nicaragua. One refinery, named El Supremo Sueño de Bolívar, is to be built on Nicaragua's Pacific coast with a capacity of some 150,000 barrels per day. PetroCaribe provides subsidized Venezuelan oil to its 18 member states through Central America and the Caribbean. It has also supported an important increase in electricity generation capacity in member countries. Since the inception of PetroCaribe, Venezuela has begun to emerge as the most important single country partner for development for its members and seems central to the region's short- and medium-term economic survival and stability. PetroCaribe has helped to cushion the shock of the financial crisis on its members; but the program has also become one of the greatest debt accumulators for the already debt-overburdened countries of the region. The sustainability of PetroCaribe depends on several factors. First, some specialists estimate that Venezuela won't be able to maintain the program if oil prices go lower than \$75 a barrel. Second, pronouncements on grandiose projects are a constant feature of PetroCaribe summits. The projects represent a viable option for obtaining new cooperation resources, but the past reveals that such projects do not always get off the ground. Venezuelan finances for the recently announced schemes could well be stretched between now and anticipated elections in October 2012. Third, the PetroCaribe model of regional energy cooperation is based on the primacy of Venezuelan oil, current largesse and the current use of ideology as a strategy for regional cooperation. It is not a model for the future since neither continued Venezuelan largesse, nor PetroCaribe (beyond Chávez), can be guaranteed."

The Energy Advisor welcomes responses to the Q & A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.