1-24-2008

Guatemala mulls state oil company to deal with energy needs; socialist inroads feared

NotiCen writers

GUATEMALA MULLS STATE OIL COMPANY TO DEAL WITH ENERGY NEEDS; SOCIALIST INROADS FEARED

Guatemala's freshly inaugurated chief of state has said he intends to seriously consider creating a state oil company. The country produces some oil and is exploring for more, but the main reason for a state company, President Alvaro Colom said, would be to negotiate imports of oil from Venezuela. As president-elect, Colom said in December he would send a delegation composed of his Minister of Energy and Mining Carlos Meany and his transition manager Edgar Barquin to look into joining Petrocaribe, the Venezuelan program that supplies oil under special terms to Central America and the Caribbean.

Colom said at that time, "We want to study Petrocaribe in detail, we want to know exactly what it's about." He had been briefed on the program by Venezuelan President Hugo Chavez when both attended the swearing-in of President Cristina Fernandez in Argentina. Chavez has been avidly selling the program to his regional counterparts and was only too happy to pitch the benefits of the program to Colom and President Manuel Zelaya of Honduras. "We will be happy when Honduras, Guatemala, and other countries join this program designed in Venezuela to help smaller, poorer countries that have no oil and that cannot withstand the oil bill," said Chavez.

The program came well recommended. The Dominican Republic's Vice President Rafael Alburquerque told Colom that his country had already saved US$300 million since signing up.

One of the requirements, however, is that Petrocaribe, a program of the Venezuelan state oil company PDVSA, only deals state to state. Guatemala, having no state oil company, would have to create one. The country would also have to provide facilities, including storage, for receiving Petrocaribe shipments.

The requirement suits Colom's plans. He had already spoken of a "Petrogua" that would take charge of private companies' leasing, exploring, and exploiting activities in the country. The entity would also deal with refining issues. "If the refinery that has been talked about doesn't come to pass (see *NotiCen*, 2007-03-01), the refining would have to be done outside, because it is a huge investment and there are no resources," Colom said.

Announcing he would be discussing the venture with his Cabinet in the coming days, Colom was at pains to make clear that the state company would tread lightly. "It is what we have been saying from the beginning. It is a company that would generate the credit that he [Chavez] is offering, but it would be simply an intermediary, it would not be a processing company. It would only be on paper," he said.

Not ready for "fatherland, socialism, or death"

Many sectors, strained by supply and cost problems, welcomed the initiative, but there were grumblings where conservatives bristled at the prospect of socializing one of the choicest of private-sector prerogatives. From the opposition Partido de Avanzada Nacional (PAN), Deputy Ely Zea of the congressional Energy and Mines Committee worried about abrading the sensitive skin of the US, from where so much foreign direct investment (FDI) flows and is expected to flow in the future. "It's a very complex step," said the deputy, "because cheap oil could mean closing many doors."

The notion got the nation's think tanks to thinking along the same lines. The conservative Asociacion de Investigacion y Estudios Sociales (ASIES) analyst Marco Antonio Barahona said it is natural for the new government to explore all possibilities for providing energy, but the geopolitical factor ought not be forgotten. As for the benefits of lower energy costs, Barahona noted that there was really not much to be gained because Guatemala, not being a large importer, would not save enough to divert significant amounts to development projects.

But for others, the savings seemed worthwhile. The reported offer to Honduras is projected to be US$750 million or better over a two-year period with an option for the strapped country to pay back 40% in agricultural products.

It is no small matter that Guatemala now has a government that would consider the Chavez offer so seriously. The largest economy in Central America, the country has been in very conservative hands, with only the briefest of exceptions during the Arevalo and Arbenz decade (1944-1954), seemingly forever ago.

Chavez took note of this after the Colom inauguration, telling reporters, "Things are changing in Central America, because before we were practically blocked from here." Chavez marks those changes as starting with the 2006 election of President Daniel Ortega in Nicaragua. His fabled closeness to the Nicaraguan president led Chavez to say that Nicaragua is "the epicenter of changes" in Central America.

Most analysts would agree that it will be a while before Chavez can say in Guatemala City, "No one will disunite us....I say, fatherland, socialism, or death." But the prospect of an oil deal was enough for the nation's second-largest daily Siglo Veintiuno to rail against "a society that struggles to build its democracy" doing business with the socialist devil. It continued, "Let him not come with lures like Petrocaribe. What this gentleman is interested in is to control the largest economy of the isthmus."

The financial-section editorial of the conservative paper went on to fault Chavez for taking advantage of the inauguration to ensnare other innocent presidents and officials of Latin America in his scheme to lower their energy costs, "thanks to the populist-style ideological affinity that unites them." The editorial found even the use of the term social democrat to describe the new president enough to ensure that "he will be incorporated in the hapless club of friends of Chavez."

After affording readers a generally accurate account of the obvious benefits of the Petrocaribe offer, the paper turned on its heels and shouted off the page, "We demand caution, President Colom! If Nicaragua, some Salvadoran municipalities, and Honduras look favorably upon the project, it doesn't mean that Guatemala should also subscribe to it blindly. Remember, the road to hell is paved with good intentions."

Historians will recall that rhetoric of this kind has been remarkably effective in Guatemala. The extreme right, with the help of the church, used similar arguments to defeat land reforms prior to the 1954 CIA-led overthrow of the Arbenz government.

Colom, however, was not concerned with overthrow. He was looking for ways to fulfill campaign promises to the poor, mostly the indigenous majority, to make life bearable and affordable. So far, what he has heard from Chavez appears to have been the best offer, and he seems ready to take him up on it.

Chavez has offered help with other needs, including economic, health, and educational. "We need unity of all peoples and countries," Chavez said. Venezuela will "show its heart, arms, and high regard for dear Guatemala and the other Central American countries."

As he moved forward with his inquiry into the ramifications of the relationship with Venezuela, Colom may have been encouraged by events in neighboring Honduras, where the government finally approved the agreement that would enable fuel imports. Honduras was admitted to Petrocaribe membership in December at the organization's summit meeting in Cuba (see *NotiCen*, 2008-01-17).

Colom will inevitably have to clarify some issues if he is to bring his conservative critics and private-sector competitors around to his way of thinking. One is the question of exactly what the state oil company will do. There was a difference between his conception and the one Chavez spoke of at the inauguration visit, in which the state company would be a producer. Said Chavez, "Guatemala has oil underground. But to get at it, investment is needed, and we are ready to invest, and the possibility exists for creating a state entity."

The Chavez statement brought new Foreign Minister Haroldo Rodas into the picture. Rodas stepped in to deny far-reaching capabilities for the company and to confirm that the possibility of "having a technical presence, nothing else," had been discussed. He said the Cabinet talks would also involve oil arrangements with Mexico and Colombia.

Confirming legalities

Meanwhile Colom said he was waiting for a report from the Banco de Guatemala (Banguat), the central bank, "to ascertain the legal status" of a state company. "We are examining an agreement from the period of [ex-President Oscar Humberto] Mejia Victores (1983-1986) to see if there is anything that would allow us the possibility of doing something more creative," said Colom. "We are awaiting a report from the Ministry of Energy and Mines."

The president was talking about the 1983 Ley de Hidrocarburos 109-83, which stipulates in Article 6, "Oil operations can be executed by the state or by contractors based on operations contracts. In the first case, the state can do so through the ministry, or through a state oil company." The law also stipulates that the contractors cannot use diplomatic protection to press claims.

The oil companies, from drillers to retailers, used to having Guatamala to themselves, also await the outcome of these reports. Shell Guatemala's chief of sales Fausto Velasquez talked up the free market. "It is a free market and anyone can do what they can. We have prices, and we emphasize that there be certainty and that we all play by the same rules," he said.

President of the Asociacion Guatemalteca de Expendedores de Gasolina (AGEG) Enrique Melendez commented along the same lines, "It is good that new sources of supply can come to the country, but we have to see what the conditions are, because to create a state oil company, first a refinery and facilities for storage would have to be created."

Experience bears him out on the storage. Honduras contracted for a single supplier, then found itself without anywhere to put the oil (see *NotiCen*, 2007-03-08). As to the refining question, at present it appears that Guatemala's hope of being host to a regional refinery remains far in the future, while Venezuela's plan to build a refinery in Nicaragua is already underway (see *NotiCen*, 2007-05-10).

Colom does not appear to be seeking a state monopoly and has said specifically, "In any case we will seek not to affect the established mechanisms of commercialization." That would be an arrangement similar to the Nicaraguan company PETRONIC, but without the complication of ALBANISA, the oil company created after Nicaragua became a member of the Alternativa Bolivariana de las Americas (ALBA).

In that case, according to reports, Venezuela provides the oil directly to PETRONIC, the distributor, which then resells to any and all other oil companies doing business in the country. PETRONIC then transfers all its revenue to ALBANISA, which is 60% owned by PDVSA and 40% by as-yet-unknown partners in Nicaragua. ALBANISA then pays 50% of earnings back to Venezuela for the oil and 25% to a social fund controlled by ALBA, and it retains the remaining 25%. Where that money goes and who are the unrevealed partners has become a political issue for the opposition in Nicaragua, but since Guatemala is unlikely to join ALBA, the mechanism that provides economic and development competition to the US, the problem is not likely to arise.

Those who oppose PETROCARIBE in Guatemala have not provided any alternative plan to deal with the crushing price of keeping the country lit and rolling. And scuttling the plan could earn the country even greater northern scorn. After Venezuela, the other country to offer Guatemala help was Iran. Iranian vice foreign minister Alireza Sheikattar told Colom, "We can give scholarships for education in the petroleum industry or send consulting companies. There is potential, and we believe it is possible to expand the relationship."

[Sources: Nicatimes.net (Costa Rica), 11/15/07; El Periodico (Guatemala), 12/11/07; Spanish news service EFE, 01/15/08; Deutsche-Presse Agentur, Latinnews Daily, 01/16/08, Siglo Veintiuno (Guatemala), 01/16/08, 01/17/08; Global Insight, 01/22/08]