3-30-2006

El Salvador's mayors sidestep government on unique fuel deal with Venezuela

NotiCen writers

EL SALVADOR'S MAYORS SIDESTEP GOVERNMENTON UNIQUE FUEL DEAL WITH VENEZUELA

El Salvador's Asociacion Internacional de Energia para El Salvador (ENEPASA) has closed a deal with Petroleos de Venezuela (PDVSA) that eliminates the intermediary and promises to funnel less expensive fuel into the gas tanks of the country's drivers. The alcaldias taking advantage of the deal are for the most part governed by Farabundo Marti para la Liberacion Nacional (FMLN) mayors. Thus, there is more to it than cheap gas. This deal is also about rebuffing President Antonio Saca, the legacy of Shafik Handal, and the further adventures of the Alternativa Bolivariana para las Americas (ALBA) in Central America.

Carlos Ruiz is mayor of Soyapango. He is also president of ENEPASA. He said that ENEPASA would supply 30% of the automotive fuels consumed in the country. El Salvador burns between 30 million and 40 million gallons a month. Ruiz expects ENEPASA's share of the market to increase as intermediaries and speculators are driven from the supply chain, resulting in lower, more stable prices at the pump. Both gasoline and diesel are in the deal.

On March 20, the FMLN mayors signed the agreement in Caracas, with Venezuelan President Hugo Chavez present. In part a result of the strong showing of the FMLN in the recent local elections, the agreement also represents an effort by the left to provide some alternative to the neoliberal economy toward which the right-wing official party is enthusiastically steering the country. Chavez suggested at the signing that money the municipalities save on energy could be used to subsidize public transport and food prices. Under the terms of the agreement, the cities would pay 60% of their fuel bill within 90 days. The rest could be paid in barter for agricultural and other locally made products, or in cash over a 25-year period.

Chavez used the moment to criticize US trade deals like the Central America Free Trade Agreement (CAFTA). El Salvador is the only country in which CAFTA is actually in force with the US (since March 1, 2006). "They're making deals with the devil, the devil himself," Chavez said.

The deal drew Saca's ire, perhaps because it is an end run around his administration made possible by the FMLN's newly acquired political capital on an issue about which his government can do little. He warned the mayors not to raise false expectations to citizens, noting that all this would require building processing plants to make it work. Ruiz replied that these contingencies were contemplated in the agreement and were not a problem. Raising expectations was exactly what mayor-elect of San Salvador Violeta Menjivar had in mind. "Great hopes are awakening in our country," she told reporters.

It's Handal again

The scheme has been in the works for months. A delegation of FMLN mayors led by the late Shafik Handal went to Caracas in mid-January 2006 to find a solution to soaring energy costs. They had already formed ENEPASA as a vehicle for negotiations with PDVSA and with Venezuela's Ministry of Energy and Mines. Handal had been to Venezuela in 2005 to lay the groundwork, but Saca turned down an offer from Venezuela to join other countries in Latin America and the Caribbean to buy oil products on favorable terms through the Petrocaribe program (see *NotiSur*, 2005-08-12).

These towns and cities are now part of Petrocaribe. The situation is unique. In every other case, the beneficiaries of Petrocaribe are states and their governments. Twenty cities of El Salvador stand alongside Antigua and Barbuda, The Bahamas, Belize, Cuba, Dominica, Granada, Guyana, Jamaica, the Dominican Republic, St. Vincent and the Grenadines, St. Lucia, St. Kitts and Nevis, Suriname, and soon, Haiti, as Petrocaribe signatories. Clearly outflanked, Saca first claimed that OPEC member nations "cannot sell petroleum cheaper to anyone," then appeared to wash his hands of the whole matter, saying, "The principal activity of the mayoralties is not to sell gasoline, nor is it to import oil, but if some decide to do it, then it will be their responsibility."

Saca is right, according to experts, about the pricing restrictions OPEC imposes, but he is wrong about the deal. Savings would come about by way of favorable terms of payment and by eliminating the markups taken by traditional importers and distributors.

At the retail level, gas stations not under contract to the internationals in control of the market in El Salvador---Esso, Texaco, Puma, and Shell--would stand to profit from a deal. "This would be very attractive to the [independent] gas stations for a company like this (PDVSA) to supply them directly," said Julio Villagran, executive director of the Asociacion Salvadorena de Distribuidores de Productos de Petroleo (ASDPP). Villagran said that most of the oil handled by the intermediaries is from Venezuela anyway.

The president of Venezuela's Asamblea Nacional (AN) was on hand in El Salvador for the unveiling of the new deal. Nicolas Maduro told the national media that important questions, like where the money was to come from for the infrastructure, including storage tanks, were all answered in the accord and involved the participation of "important" Salvadoran private-sector investors. He would not specify exactly how much money consumers would save with the program but said that the conditions of payment would allow for price stabilization and insulation from price swings in the market.

Maduro said the deal was not the exclusive property of the FMLN. "The agreement is fundamentally with FMLN mayors because they invited us," he said. "If the initiative had been taken by President Saca, we would have done it with him." As it stands, he said, "This project implies several things. First, a mixed enterprise between Venezuelan capital, in this case PDV Caribe, and ENEPASA. This mixed enterprise will have its headquarters in El Salvador and will be charged with resolving all the logistical matters to bring in fuel for storage and distribution."

Maduro said the government could choose to participate at any time. "If the government is interested in supporting this arrangement, good, simply welcome," he said. "What has complicated all this is that a new modality is being attempted, with the mayors, and what I can tell you is that the mayors have dedicated themselves almost exclusively to seeing that this operation succeeds." The legislator said that the legal basis for the plan has been established, the ways and means studied, the market evaluated, and the technical issues solved.

Though politically trumped by the opposition's initiative, Saca is in no position to obstruct it. The country has seen a threefold increase in energy expenditures in recent months, and the trendency is pointing higher. Immediate forecasts from the ASDPP see gasoline rising between US$.19 and US$.24 a gallon, depending on grade, and diesel rising US$.07 at retail in the near term. A gallon of gas is now priced at around US$2.93, diesel at US$2.71.

Having no alternative, the very conservative Saca has promised the FMLN that his government will provide everything at its disposal to make the plan work. He said he would not obstruct the process. "I want to tell the mayors that have gotten involved in this negotiation that all the facilities that the Ministry of Economy can give, we will give."

"But it is important," he hedged, "not to generate false expectations."

Despite his assurances, he would only go so far in supporting an alternative to private-sector norms. Caracas has asked that the Salvadoran state control profits, not the transnationals. Saca refused.

[Sources: Notimex 01/18/06, 03/20/06; Prensa Presidencial, www.vtv.gov.ve (Venezuela), 03/20/06; Associated Press, Latinnews Daily (UK), 03/21/06; Prensa Grafica (El Salvador), 03/22/06; Inforpress Centroamericana, 03/24/06]