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CUBAN ECONOMY HURT BY SUSPENSION OF VENEZUELA OIL SHIPMENTS UNDER 2000 AGREEMENT

The April 11 coup against Venezuelan President Hugo Chavez (see *NotiSur*, 2002-04-19) has had serious consequences for Cuba as coup leaders abruptly stopped scheduled shipments of oil to Cuba. Shipments did not resume after the collapse of the short-lived coup regime.

Under an October 2000 agreement (Programa de Cooperacion Energetica), the Venezuelan state oil company Petroleos de Venezuela (PDVSA) was to ship 193 million barrels per year of crude and various derivatives for five years (see NotiCen, 2000-11-02). Cuba agreed to pay up to 75% in 90 days and the balance was to be financed over 15 years.

The agreement originally allowed Cuba to pay part of the bill in goods and services, exchanging medical, sports, and tourism services and agricultural products for part of the oil shipments.

The barter system was dropped in September 2001 and all exchanges were paid for in cash after that. Cuban authorities said the system was abandoned because it was too complicated.

Oil politics intervenes

Although the Venezuelan right and the Miami Cuban-exile leadership criticized the agreement as a corrupt alliance between two dictators, one supporting the other with cheap oil, the deal was not particularly unusual.

Venezuela and Mexico had been routinely supplying a dozen Central American and Caribbean countries—including Cuba--since 1980 under the San Jose Pact.

In 1999, Chavez asked Mexico to include Cuba in a renewal of the pact. Mexico's refusal exposed a strain of political resistance that had arisen in oil politics as Mexico moved closer to US policies through the North American Free Trade Agreement (NAFTA).

Lourdes Melgar, director of international affairs for Mexico's Energy Secretariat, explained the secretariat's opposition to the sales in an interview with the Mexican magazine Proceso. While Cuba's credit worthiness was one issue, another one, she said, was that "politically, it would have been badly received in the US."

This was at a time when Cuba-Mexico relations were still on fairly solid ground and Cuba had privately agreed not to ask for inclusion in the pact to spare Mexico embarrassment (see *NotiCen*, 1999-10-07).

The next year, Central American presidents, meeting in Guatemala for the Fourth Tuxtla Summit, asked Chavez for Venezuelan oil imports on terms similar to those of the San Jose Pact.

In September 2000, Chavez responded with the Caracas Pact, an agreement to sell oil "to our most vulnerable brother countries and neighbors without gravely affecting their economies."

Under the Caracas Pact, signed a few days after the Cuba-Venezuela agreement, 11 Central American and Caribbean nations receive oil shipments from Venezuela under terms almost identical to those Cuba had.

In October 2001, some Chavez opponents in Venezuela said they would take the case against the Caracas Pact to the Tribunal Supremo de Justicia (TSJ) to argue that it was invalid because it had not been approved by the National Assembly.

During the two days in which the coup leaders claimed power in Venezuela, PDVSA managers announced an immediate end to oil shipments to Cuba. As of April 11, no more oil shipments were made to Cuba. Ships already loaded with oil for Cuba were halted in port and their cargoes sold to other buyers.

The cutoff of Venezuelan oil forced Cuba to pay higher prices elsewhere and to dip into its strategic oil reserves to meet domestic demand. Another difficulty was the 1992 Torricelli law (Cuban Democracy Act) that requires ships that have visited Cuban ports to wait six months before entering US ports. Tankers charge extra for carrying oil to Cuba under those constraints.

After returning to power, Chavez promised to honor the agreement with Cuba and resume oil shipments. Minister of Energy and Mines Alvaro Silva Calderon told a news conference that Venezuela would observe all of its commitments specifically mentioning commitments to Central American and Caribbean buyers. "Beyond any doubt we are going to respect and meet our obligations to Cuba," he said.

But as Silva was reassuring Cuba and the Caracas Pact buyers, PDVSA was preparing to end the oil agreement. The Venezuelan daily El Nacional reported May 24 that an internal PDVSA memo recommended permanently ending all oil exports to Cuba. The memo, written by PDVSA Vice President Jorge Kamkoff said Cuba was US$63 million in arrears on its payments.

Cuba says it owes Venezuela nothing

Taking their cue from the PDVSA, some media interpreted the suspension as a result of Cuba's failure to pay its oil bills. The Oil Daily said in late May that PDVSA had broken the contract with Cuba because of the US$63 million debt. El Nuevo Herald reporter Pablo Alfonso said in the May 26 edition of the Miami newspaper that, despite Chavez' willingness to help Castro out, he could not give the oil away--"you have to pay," said Alfonso.

The article said Cuba had defaulted on payments on 49 of the 133 oil shipments leaving a US$62 million debt to PDVSA. It was this payment history, Alfonso said, that resulted in the suspension. Citing experts, he speculated that Cuba had shifted money intended to pay for the oil imports to cover food imports from the US, which reached US$75 million worth of contracts by early 2002 (see *NotiCen*, 2002-05-16).

On May 30, the Cuban government published its own account of the suspension in the official newspaper Granma. The statement was partly an answer to the May 26 Nuevo Herald story and to others in the media that shifted the cause of the suspension away from Venezuela's coup leaders to the Castro government's alleged inability or refusal to pay its bills.

The government statement confirmed the suspension and denounced it as having caused "serious damage" to the Cuban economy. In a direct contradiction to PDVSA claims, the statement said Cuban payments were up to date at the time shipments were suspended.

Cuban figures indicated that Venezuela had shipped 25.5 million barrels between December 2000 and April 2002 worth US$675 million. Cuba had paid US$439.7 million of that amount with US$127 million in payments due next year.

The claims about an unpaid oil bill stemmed from the suspension in delivery, interrupted beginning with the strike at PDVSA facilities April 5, said the government. Among the first decrees issued by the coup junta led by Pedro Carmona was the suspension of oil shipments to Cuba, which stranded three tankers loaded with oil for Cuba in port.

Though details about Cuba's payment record were sketchy in both the Cuba and Venezuela accounts, it appears from the Cuban government statement that Cuba believes that when Cuba suspended payments after April 11, PDVSA counted as a debit the price of oil in two tankers already consigned to Cuba but never delivered.

The May 30 statement further complained that the PDVSA managers ended the shipments in violation of a contractual obligation to notify Cuba of its intent 30 days in advance.

In mid-May, Cuba's Minister of Basic Industry Marcos Portal said no oil had arrived since April 12 and although Chavez said shipments would resume, that has not happened.

Cuba's domestic production up 700%

As imports from Venezuela ended, Cuba announced dramatic increases in domestic production

In 1999, Cuba produced half its electricity with domestically produced oil. In 2001, the figure had risen to 90%. Portal expects that, in less than five years, all electricity demand will be meet with generators fired by domestic oil.

Portal called a news conference in early June to announce that the state oil company Cuba-Petroleo (CUPET) had increased production from 500,000 metric tons in 1991 to 3.5 million MT this year. Natural gas production also rose rapidly, from 40,00 cubic meters to 600 million cubic meters in the same period. Nearly one-third of the population now uses domestically produced liquified gas.

Also in early June, the Canadian oil-exploration company Pebercan announced it had found oil in one of its exploratory Cuban wells. Preliminary tests indicate it will produce up to 4,500 barrels per day, which would increase the company's production in Cuba to about 20,000 bpd. By way of comparison, the contract with Venezuela was for shipments of 53,000 bpd.

[Sources: Notimex, 09/04/00; VenNews, 10/02/01; Reuters, 05/17/02; Agence France-Presse, El Nacional (Venezuela), 05/24/02; El Nuevo Herald (Miami), 05/26/02; The Oil Daily, 05/28/02; Associated Press, 10/31/00, 09/24/01, 05/24/02, 05/30/02; Granma (Cuba), 05/30/02, 06/06/02; Spanish News Service EFE, 04/23/02, 06/08/02; Business News Americas, 06/10/02]