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# PetroCaribe: Welcome Relief for an Energy-Poor Region

Chris Cote

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# *Hemisphere*

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## Energy Challenges in the Americas

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### Cover Image:

Ribeirao das Lajes dike with its forest bordering the reservoir, an example of Light S.A.'s reforestation program. Light, a subsidiary in Brazil of the French company EDF (Électricité de France), distributes electricity to 80% of the State of Rio de Janeiro and implements environmental protection programs. ANTONIO SCORZA/AFP/Getty Images.

# PetroCaribe: Welcome Relief for an Energy-Poor Region

By Chris Cote

The international price of oil has an enormous impact on the economies of the energy-poor countries of Central America and the Caribbean, nearly all of which are substantial importers of fossil fuels. Venezuela has been the region's lone source of relief from the skyrocketing prices of recent years. It created PetroCaribe in June 2005 to help Central American and Caribbean governments finance their oil imports.

Today, PetroCaribe, which is managed by Venezuela's national oil company, PDVSA, serves 17 of the 24 Central America and Caribbean countries, excluding Barbados, El Salvador, Panama, and Trinidad & Tobago (the region's only energy exporter). Although questions have been raised about PDVSA's reporting, the Venezuelan oil company's own figures show PetroCaribe supplied the region with approximately 160,000 barrels per day on average from 2007 through 2009. This amounted to nearly 20% of Central America's and the Caribbean's oil supply—although half of the total went to Cuba.

The recipient countries benefit most from PetroCaribe's special financing. As the price of petroleum increases, so does the amount PetroCaribe is prepared to finance. The terms become particularly generous when the price of oil is above \$40 per barrel, which will likely be the case for some time into the future. The scheme is an

*Venezuelan President Hugo Chávez and Cuban Acting President Raúl Castro on December 21, 2007, in Cienfuegos, Cuba, at the fourth summit of PetroCaribe, an initiative created by Venezuela to provide oil to Caribbean neighbors at preferential prices. Photo: Adalberto Roquel/AFP/Getty Images.*



intelligent one: the higher the price of oil, the greater Central America and the Caribbean's need for help, but rising prices also expand Venezuela's capacity to assist. When prices are low, Venezuela cannot help much, but the region also requires less assistance.

Besides financing oil purchases, PetroCaribe has promised to contribute to the cost of developing and repairing refineries and other infrastructure. So far, repair of the Cienfuegos refinery in Cuba is the only project that has been completed. Plans call for building or repairing some 20 refineries in the next 10 years. Petrocaribe has also pledged to contribute to a food security fund for Central America and the Caribbean when oil prices exceed \$100 a barrel.

PetroCaribe has been a constructive way for Venezuela to gain political influence. Venezuela has been criticized for seeking political advantage from its support of PetroCaribe, but this is an objective of almost all foreign aid,

regardless of the source. Moreover, Venezuela has gained a measure of good will across the Caribbean and Central America as a result of its PetroCaribe mechanism.

The longer-term prospects of PetroCaribe are uncertain. Despite high prices, the Venezuelan oil industry is deteriorating. PDVSA's oil production has fallen by approximately one-third since 1997 (from 3.30 to 2.20 mbd). Exports fared even worse; due to rising domestic demand, Venezuela's shipments abroad dropped by one-half (from 2.90 to 1.50 mbd). There is no question that PetroCaribe has become more costly to Venezuela, with shipments from PDVSA through PetroCaribe continuing to rise as a share of total oil exports. In response, Venezuela appears to be tightening the terms of its PetroCaribe sales. ■

*Chris Cote is a program assistant for economics at the Inter-American Dialogue, where he specializes in energy and Brazil-related issues.*