8-29-2002

Venezuelan Oil Shipments to Cuba Resume in September

LADB Staff

LADB Article Id: 52985
ISSN: 1089-1560

Venezuelan Oil Shipments to Cuba Resume in September

by LADB Staff
Category/Department: Cuba
Published: 2002-08-29

Venezuela's Minister of Production, Industry, and Commerce Ramon Rosales announced July 22 that the state-owned oil monopoly Petroleos de Venezuela (PDVSA) would resume oil shipments to Cuba Aug. 1. The shipments were cut off in April by leaders of the short-lived coup against President Hugo Chavez (see NotiSur, 2002-04-19).

The decision to resume shipments came after Cuba Petroleos (CUPET) negotiated an agreement with PDVSA to refinance outstanding payments for previous shipments. PDVSA began oil sales to Cuba under an agreement (Programa de Cooperacion Energetica) signed in October 2000. The pact calls for PDVSA to ship 193 million barrels of crude and derivatives each year for five years (see NotiCen, 2000-11-02) under generous payment terms.

Opposition delays, sues to stop shipments

Within days of the announcement, the resumption date was postponed to Sept. 1. The anti-government Caracas newspaper El Universal reported that PDVSA did not have enough supply on hand because of prior commitments to other buyers. But other sources suggest the delay is part of a continued effort by Chavez opponents within PDVSA's management to kill the oil deal altogether.

Stratfor.com quoted PDVSA sources as saying managers had forced the postponement until Cuba pays the estimated US$142 million still outstanding. El Nacional, another Caracas newspaper opposed to Chavez, published a letter that PDVSA executive Edgar Paredes sent to PDVSA vice president Jorge Kamkoff claiming that resumption of sales to Cuba would hurt the company financially.

Paredes wrote that Cuba had "demonstrated it does not have the capacity to pay its debts punctually," and that the National Bank of Cuba was "not a trustworthy guarantor" of CUPET's payments. There is a longstanding opposition to the oil agreement from PDVSA white-collar workers supported by the anti-Chavez media. The Central de Trabajadores de Venezuela (CTV), a union allied with the opposition Accion Democratica (AD), has tried to present the government's reorganization of PDVSA's management as a labor issue (see NotiSur, 2002-03-22) and the Cuba oil agreement as the prelude to a communization of Venezuela.

El Nacional reported July 25 that a majority of PDVSA's executive committee would refuse to allow a resumption of sales to Cuba unless Cuba cleared up its outstanding debt to PDVSA and met other financial requisites. Also in July, opposition forces filed suit in the Venezuelan Tribunal Supremo de Justicia (TSJ) to prevent resumption of the shipments. They claimed that Chavez was guilty of embezzlement for signing the oil agreement because it hurt Venezuela's national interests.

LADB Article Id: 52985
ISSN: 1089-1560

In mid-August, the TSJ indicated it was taking seriously the opposition argument that the oil agreement was illegal because it had not been approved by the National Assembly. The tribunal ordered National Assembly president William Lara to show that Chavez had met all legal requirements in signing the pact. The suit appears aimed more at Chavez than at President Fidel Castro and CUPET since it is packaged along with charges that Chavez misappropriated US$2.3 billion in public funds and that he failed to report US$1.5 million allegedly donated to his 1998 campaign fund by a Spanish bank.

However, PDVSA president Ali Rodriguez rejected all opposition claims and said statements against the oil agreement were attempts to politicize a "distinctly commercial matter." The decision to resume shipments, he said, was made by a majority of PDVSA shareholders.

Minister of Energy and Mines Rafael Ramirez accused those opposed to the sales of trying to keep Cuba out of oil agreements that Venezuela has made with other nations. Venezuela and Mexico supply 160,000 barrels of oil per day to Central American and Caribbean countries not including Cuba on favorable terms under the San Jose Pact.

In 2000, Central American presidents asked Chavez for oil imports on terms similar to those of the San Jose Pact (see NotiCen, 2000-07-13). The resulting Caracas Pact, signed a few days after the Cuba-Venezuela agreement, allows 10 Central American and Caribbean nations to receive oil shipments from Venezuela under terms almost identical to those Cuba has. Rodriguez said that only the sales to Cuba had aroused the interest of the opposition within PDVSA.

Since the term of former Mexican President Ernesto Zedillo (1994-2000), the likelihood of Cuba entering the San Jose Pact has become exceedingly remote as he and current President Vicente Fox steadily aligned Mexico with US policy on Cuba (see NotiCen, 2002-03-14). When time came for the annual renewal of the San Jose Pact in 1999, Mexico refused Chavez's request to include Cuba because of questions about Cuba's credit worthiness.

Lourdes Melgar, director of international affairs for Mexico's Energy Secretariat, warned Venezuela not to sell oil to Cuba in any separate agreements outside the pact. Melgar told the Mexican weekly magazine Proceso that Mexico had an understanding with Cuba that the island would not ask for inclusion in the San Jose Pact so as not to offend the US. "Politically, it would have been badly received in the US," Melgar said, because of the upcoming 2000 presidential elections (see NotiCen, 2002-06-13).

Payments are a key issue

The issue of overdue payments looms large in the argument over the Cuba oil deal. The opposition has claimed Cuba was paying in barter, that it had refused to pay its overdue obligations, and even alleged that Chavez was giving the oil away. Although the original agreement allowed Cuba to pay for part of the oil by barter, the system was abandoned in September 2001. Rodriguez said Cuba was up to date in payments at the time of the April coup attempt and is paying in US dollars.

LADB Article Id: 52985
ISSN: 1089-1560

However, Venezuela is now insisting on more prompt payment, a move clearly designed to erase payment as an issue and force the opposition to argue against sales to Cuba on purely political grounds. Rodriguez says that Cuba must pay the US$142 million in arrears within six months or face another suspension. He gave few details about financing arrangements, saying they were part of the confidential sections of the new agreement.

Rodriguez also denied press accounts that Venezuela and Libya planned to buy the unfinished Cuban refinery in Cienfuegos. What is under consideration is foreign investment to modernize the plant. The Swiss firm Crown Resources announced in early August that it was planning to complete construction of the Cienfuegos refinery, begun by the former Soviet Union and left unfinished when the Soviets abruptly ended aid to Cuba in the early 1990s.

Crown Resources president Alexy Kousmichoff said the work could be done for only US$40 million. Domestic production continues to rise With the demotion of sugar as a prime income earner through the closing of 71 mills (see NotiCen, 2002-06-27) Cuba's economy depends increasingly on tourism and oil tourism for earning foreign exchange and oil for import substitution to save hard currency reserves.

Economy Minister Jose Luis Rodriguez said in July that oil would be important in resolving Cuba's trade imbalance. Granma reported that crude-oil and natural-gas production in 2002 is expected to reach 4.1 million metric tons, a 20% increase over last year's production. If the projected tonnage were achieved, Cuba would produce about 90% of its electricity and meet about half of its overall petroleum needs with domestically produced oil. The big increases in production are expected to end the planned blackouts around the country.

Minister of Basic Industry Marcos Portal told a news conference in June that, since 1991, Cuba had invested US$2.4 billion from joint ventures to modernize the industry resulting in a 700% increase in production. Liquefied-gas production rose from 40,000 cubic meters to 600 million cubic meters in the same period. By 2005, oil production is projected to reach 6 million MT. Cuba's World Data Service (WDS) reported that the shortages also are responsible for curtailment of gasoline supplies to consumers who pay in pesos.

Gasoline stations in Havana had no supplies on hand for Aug. 8, WDS reported, although there were no shortages in stations selling gasoline for dollars. At present, two-thirds of oil demand is met by imports from Venezuela and spot-market purchases at a cost of US$1 billion yearly.

-- End --