Venezuela and Oil Diplomacy: The End of the Road for Petrocaribe?

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PETER CLEGG, SEP 12 2013

The Petrocaribe initiative was launched by Venezuela in July 2005. It allows signatory countries – based largely in the Caribbean – to purchase Venezuelan oil (and/or petroleum products) at a discounted price. Countries must pay 60% of the bill within 90 days, although countries may offer goods and services to pay off oil shipments. The remainder of the payment can be deferred for a period of up to 25 years at an annual interest of between 1-2%. The deferred payment is then converted into a soft loan that can be used for infrastructure and development projects in the recipient countries.

As a region, Caribbean countries spend around 13% of GDP on oil imports. With high prices in recent years a significant burden has been placed on these countries exacerbating long-standing problems such as high indebtedness and sluggish economic growth. Thus the support provided by Petrocaribe has been crucial in helping many countries through a difficult economic period. In 2012 Venezuela shipped an average of 108,000 barrels per day (bpd) to Petrocaribe members. Cuba, meanwhile, under a parallel arrangement received more than 100,000 bpd – over half of its oil needs. Overall, Petrocaribe is by far the largest provider of concessionary finance to the Caribbean.

Since Nicolas Maduro assumed the presidency of Venezuela he has made great efforts to reassure the other members of Petrocaribe that the arrangements are safe. For example, on 29 June at the 8th Petrocaribe Summit held in Nicaragua Maduro promised to maintain Venezuela's commitment to the region. He also promised to extend the scope of Petrocaribe to establish a new "Economic Zone" that would lower barriers to trade and tourism between member states. However, details remain vague. Further, there are plans for a new bilateral fund to help facilitate the integration process within Petrocaribe. In a related development Maduro held talks with Caribbean Community (CARICOM) leaders on 8 July to discuss plans for deepening cooperation in areas such as transportation. Therefore, since March there has been a concerted effort on the part of Maduro, both rhetorically and practically, to reaffirm the importance of, and Venezuela's commitment, to Petrocaribe. However, Venezuela's economic problems could undermine official policy.

The Venezuela economy is suffering from a number of structural problems, including rising debt, inflation nearing 30%, and worsening food shortages. In addition, falling oil prices (oil accounts for 95% of all foreign export earnings) have eroded foreign reserves, roughly 70% of which consist of gold, another commodity falling in value. The domestic oil industry is also under pressure. Many years of mismanagement of the national oil company, PDVSA, has hit production. In 1998 (when Chávez was first elected) Venezuela was producing 3.41 million bpd; in July of this year it averaged just 2.35 million bpd. Further, due to preferential supply arrangements (like Petrocaribe) and other arrangements such as the one whereby Venezuela supplies 400,000 bpd to service its debts to China, approximately 43% of PDVSA's oil exports are not paid for directly (up from 32% in 2009). As a consequence, Venezuela's fiscal position is being squeezed from all sides.

There are risks for Petrocaribe as a consequence of Venezuela's worsening economic position. Hugo Chávez was the driving force behind Petrocaribe, and even when he was alive and economic conditions were better doubts were raised about the scheme from within his own party, as well as within certain parts of the military. They questioned whether at least some of the funds would not be better spent domestically. They were also sceptical of the diplomatic gains from Petrocaribe. Since the death of Chávez and with a worsening economy the voices of opposition from within the government have grown slightly louder. However, there appears to be no serious political challenge to the scheme at the present time. A brief word should be said here about the opposition party led by former presidential candidate Henrique Capriles. He was very critical of Petrocaribe during the election campaigns and called for it to be scrapped. Although Capriles lost, the opposition is emboldened and is looking towards the municipal elections in December 2013 and the parliamentary elections in 2015. A strong showing by the opposition, particularly in 2015, would put greater pressure on Maduro's continued support for Petrocaribe.

Notwithstanding, at least some acknowledgement by the government of the more difficult economic circumstances has been seen in recent weeks, with some tweaking of Petrocaribe and more particularly the rate of interest to be paid on deferred payments. In July it was reported that Venezuela had requested that Guatemala and Honduras pay an interest rate of 2-4% (double the usual rate) on its loans. Rumours also circulated that longer standing members would also be charged a higher rate, but this has not yet been confirmed. However, this is very unlikely to be the start of a radical restructuring of Petrocaribe, although some further moderate readjustment of the programme is possible. The consequences of radical change or even the scrapping of Petrocaribe would be too great for either Venezuela or the benefitting countries to countenance.

In addition, there are three other underlying reasons why Petrocaribe will likely be maintained – at least in the medium term. First, efforts are being made by the Venezuelan government to reverse the decline in oil production, and if successful this will reduce the proportion of oil allocated under preferential arrangements. Second, PDVSA predicts that preferential oil supplies to China will decline significantly by 2019, and this too will increase the amount of oil being sold at full market price. Third, there are indications that even the US government does not want Petrocaribe to end abruptly, recognising the importance of the scheme to many countries in the Caribbean and Latin America.

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Dr Peter Clegg *is Senior Lecturer in Politics at the University of the West of England, Bristol. Read more from Peter, and others, in UWE Bristol's Politics in Action blog.*

About the author:

Dr Peter Clegg is Head of the Department of Health and Social Sciences at the University of the West of England, Bristol. He has been a Visiting Fellow at the Institute of Commonwealth Studies in London, and a Visiting Research Fellow at the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) at the University of the West Indies in Jamaica.