Petrocaribe: The Current Phase of Venezuela’s Oil Diplomacy in the Caribbean*

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Introduction

The integrationist movement that has been under way through the first decade of the 21st century in Latin America and the Caribbean has been marked by two fundamental factors (Benítez, Celi and Jácome, 2010). The first one is the growing fragmentation and disintegration at the continental level, as a number of countries (Mexico, Central America, and the Caribbean) have turned more toward the north, whereas South America has sought to promote an identity that has been unable to overcome the differences between two blocs: on the one hand, the Andean region, where tensions and conflicts among neighboring countries have increased in recent years; and the Southern Cone, on the other hand, which has worked to advance mutual trust measures and peacekeeping operations especially within the framework of the United Nations.

These differences have had an important impact on perceptions about the main threats faced by countries in terms of security and defense, as well as on the agendas and mechanisms that are designed to address them, thus resulting in a setback for regional cooperation on these issues despite the creation and implementation of new regional bodies such as the South American Defense Council of the Union of South American Nations (UNASUR). Moreover, this opposition between two different views on Latin American and Caribbean has recently played itself out in the Caribbean, especially as ties between Brazil and Cuba have grown stronger and as Suriname and Guyana have entered UNASUR.
The second factor is related to the ongoing weakening of democratic systems in many countries in the continent and to the increased influence of actors such as drug traffickers and organized crime, which has worsened states’ many preexisting problems and become a threat for democratic governance—namely, the incidence of violence, and its recent escalation, resulting from the expansion of non-state armed actors. Even the Caribbean has been touched by this phenomenon.

In addition to these two elements, there are some additional factors playing a role, such as the impact of natural disasters and environmental problems, and the role of the United States and other extra-regional actors, especially the European Union (with its close ties to most Caribbean countries) and the growing presence of Russia and China in the region.

Within this context, it has been argued that public debates on defense and security cooperation should include a series of new topics. Some of them have to do with (1) access to natural resources (water, gas) and environmental problems, (2) growing social and political unrest, (3) the role of non-state armed actors, (4) small arms and light weapons trafficking, and (5) the militarization of security. It is also important to consider, on the one hand, the growing participation of armed forces in the fight against organized crime and drug trafficking and in the management of security at the domestic level; and, on the other hand, the militarization of police institutions.

Within this framework, this paper’s main objective is to examine the role of Venezuela’s so-called “oil diplomacy” in the Caribbean sub-region. For this purpose, two fundamental issues are addressed: first, the components of the Bolivarian Alliance for the Peoples of Our America-Peoples’ Trade Agreement (ALBA-TCP) for the Caribbean; and, secondly, Petrocaribe’s initiative currently covering 18 countries: Antigua and Barbuda, the Bahamas, Belize, Costa Rica, Cuba, Dominica, Granada, Guatemala, Guyana, Haiti, Jamaica, Nicaragua, the Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Venezuela. The second section provides some considerations regarding possible future scenarios.

**ALBA in the Caribbean**

Historically, Venezuela has deemed the Caribbean to be a natural area of influence because of its geographic location as well as their mutual cultural affinity. It has seen itself as a bridge between the Caribbean and even Central America, on the one hand, and South America, on the other hand. Thus, the use of oil as a fundamental pillar of Venezuelan diplomacy by the government of President Chávez and its interest in the Caribbean region do not represent much of an innovation on its part. Beginning in the 1970s, oil became the center of Venezuela’s international relations, especially during the first presidency of Carlos Andrés Pérez (1974-1979). Likewise, the Caribbean was an important focus of Perez’s government and that of its predecessor, Rafael Caldera (1969-1974), and its importance grew even more in the 1980s with the San José Agreement (see Annex).

However, after President Hugo Chávez came into power in 1999 (12.5 years ago), Venezuelan foreign policy underwent an important change, focusing on the formation of an anti-American axis under Venezuela’s leadership, with oil as a fundamental instrument. This
view is based on a perspective inherited from the Cold War, according to which an increased presence in the Caribbean and stronger ties between Caracas and Havana were part of a strategy to challenge the United States.

The strategy for political cooperation and concerted action that the Venezuelan government has put forward for Latin America and the Caribbean is embodied by ALBA (Altmann, 2011), which, insofar as it has been defined as an “alternative for the peoples,” does not represent an obstacle for its members to participate in other integration schemes such as the Caribbean Community (CARICOM) and the Association of Caribbean States (ACS). Still, there are some obvious overlaps between these bodies’ and ALBA’s proposals, as it became clear when English-speaking Caribbean countries opted out of participating in ALBA’s security and defense mechanisms, as it will be explained later on.

ALBA is a mechanism in which ideology and politics have a central role, but it is also guided by pragmatism on the part of most of its members in terms of obtaining access to oil at reduced prices and preferential payment options for members. Despite its alternative perspectives concerning integration, its institutional structure is a traditional one, as it is based on a presidentialist view which holds Presidential Summits as the central core of its activity, followed by ALBA’s Political Council (made up of member countries’ foreign affairs ministers) and its commissions and working groups. A Secretariat in Caracas has been created recently with the purpose of managing ALBA’s organizational and administrative affairs.

The following are the main proposals that are currently being carried out within ALBA:

- The creation of a monetary zone with a common currency: Unitary System of Regional Compensation (SUCRE), in which Dominica participates as an observer. Bolivia, Ecuador, Cuba, and Venezuela are the only countries whose public and private banks are using this currency
- ALBA Bank
- ALBA Food, which funds proposals for agrifood projects
- Telesur: a continental initiative in which Cuba is the only participant country from the Caribbean region

By 2008, Venezuela had invested an estimated $32,952 million dollars in cooperation with ALBA countries, a sum which amounted to 23.51% of its annual fiscal revenue (Arellano, 2008). Venezuela is the only contributor to the ALBA Bank, with the exception of very small contributions from others, while most other countries are receptors. With regard to the Caribbean more specifically, ALBA’s work has focused on three major issues.

The first and foremost aspect concerns the situation of Cuba. In every international instance, ALBA’s priority has been the end of the US blockade, as well as the possibility of a military intervention either in Cuba or in Venezuela.

The second one is the problem of Haiti, concerning which there has been a discourse calling for the end of US military interventionism. During the Political Council’s meeting on January 25,
2010, an agreement was reached to create ALBA’s Humanitarian Fund for the purpose of providing health, education, and housing assistance, as well as a power generation plant. In recent years, the governments of ALBA member states and the government of Haiti have also moved closer together, and today Haiti takes part in ALBA meetings as an observer.

The third issue is the ALBA-Caribe Fund, whose mission is to fund social projects (www.petrocaribe.org) on areas such as tourism, health, education, road infrastructure, environmental cleanup, access to drinking water, housing, sports, and agriculture in various Caribbean countries. During the fifth Petrocaribe Presidential Summit, the President of Venezuela announced the creation of Petroalimentos, which would include the formation of a Permanent Council of Agriculture Ministers, and the ALBA-Caribe Fund, with an initial contribution in the amount of $50 million dollars on the part of Venezuela. According a report published by PDV Caribe—an affiliate of Petróleos de Venezuela (PDVSA) for the Caribbean (Romero, 2011)—a total of 69 projects were carried out between 2005 and 2008 in nine Caribbean countries (Antigua, Belize, Cuba, Dominica, Grenada, Guyana, Haiti, Saint Vincent and the Grenadines, Saint Kitts and Nevis, and the Lesser Antilles) and in 13 thematic areas (sanitation, housing and habitat, road infrastructure, tourism, health, social economy, education, sports, humanitarian assistance, culture, citizen security, agriculture, and land ownership).

Still, despite the influence that Caracas sought to exert in the region, Caribbean countries—with the exception of Cuba—have not aligned themselves in an open and unified manner with the anti-imperialist or anti-USpositions defended by the Venezuelan government. They also have not echoed President Chávez’s militaristic approach to security and defense. In this respect, his main project for ALBA, namely the defense against imperialism and the need for a joint response to the threat of US aggression, has not resounded much among other countries.

At the Seventh Summit held in Cochabamba in 2009, the ALBA Permanent Committee for Sovereignty and Defense was created with two fundamental goals: to define a Strategy for Joint Popular Defense and to establish an School for Dignity and Sovereignty of Armed Forces. The latter was inaugurated in Bolivia in 2011. At this meeting, however, cracks within ALBA became apparent as English-speaking Caribbean countries expressed their reservations given that they also belong to the Regional Security System.2 Likewise, following Costa Rica’s complaint about what it considered an intervention in its territory on the part of Nicaragua in 2010, Venezuela was the only ALBA member state that supported Nicaragua when the event was discussed at the Permanent Council of the Organization of American States (OAS). It is also important to note that many of the issues that are considered to represent the main threats to security in the Caribbean—organized crime, arms trafficking, drug trafficking, the effects of climate change, and HIV-AIDS—are not part of ALBA’s agenda.

Arguably, one of ALBA’s main weaknesses is that no new countries have joined it since June 2009, when Antigua and Barbuda and Ecuador became members. This process may suggest that ALBA has become stagnant, mainly due to the fact that it depends almost entirely on Venezuelan funding, which makes it a very asymmetric scheme.
Additionally, in recent years there have been many general declarations, but there has been little in the way of carrying out specific plans, leading many to argue that ALBA is more rhetoric than action.

In this sense, Petrocaribe has become a cooperation instrument at the heart of ALBA, seeking to counteract the bilateral trade negotiations between the United States and Caribbean countries (Altmann, 2011). Both of these bodies have weakened and disintegrated the region insofar as their proposals and actions are advanced parallel to those of other systems such as UNASUR and CARICOM.

Petrocaribe

This mechanism, created in 2005 (see Annex), defines itself as an element of Venezuela’s foreign policy which seeks to displace multinationals from the region and create a focal point for development within the framework of a geopolitical position (www.petrocaribe.org). For this purpose, it seeks to turn the Caribbean and Central America into a unified negotiating bloc together with Venezuela, which would act as a bridge for establishing strategic alliances between this bloc’s members and China, Russia, and other friendly countries.

Relations with many countries in the Caribbean have grown closer. While this rapprochement was initially based on a political and ideological connection with some governments, today it is based mostly on economic pragmatism with a focus on the supply of oil. As pointed out earlier, the system has been predicated on Venezuela’s granting of subsidized prices and preferential payment options, and on the development of mixed enterprises that participate in the different stages of the oil market. For this purpose, the Venezuelan state enterprise Petróleos de Venezuela S.A. (PDVSA) created PDVCaribe S.A., through which it manages the Petrocaribe initiative, which is based on bilateral assistance from the Venezuelan government to its partners. Currently, PDVSA sells crude oil and oil products on credit, and recipient countries have up to 25 years to pay back, with a 2% interest rate if a barrel is priced under $40 dollars and 1% if it is priced higher (Griffith, 2011). Members receive the product with 40% financing when the price is above $50 dollars, 50% if it is above $80, and 60% if it reaches $100 or more (Romero, 2011).

Additionally, other conditions include payment options for member countries consisting in 5% to 50% of oil costs, with grace periods of up to two years as well as short-term payments of up to 90 days. It is important to point out that, since its launch in 2005, only state enterprises take part in this agreement. There is also a scheme for paying for a portion of oil costs with goods and services. The case of Cuba is a notable example, with the exchange of oil for medical services, sports trainers, and consultants on sensitive fields such as intelligence, identification systems, registers and notaries, and foreign and military policy, among others.

All of this entails an increase in public debt for recipients, which in the long term may be impossible to pay off, as the government of Barbados argued to explain its decision not to participate in the program. PDVSA has become one of the main creditors to countries such as Bolivia, Paraguay, and Uruguay through the Caracas Energy Agreement, and the Dominican Republic, Nicaragua, Jamaica, and Guyana through
Petrocaribe. Some governments have even requested payment restructuring, discounts, and debt forgiveness during presidential meetings (Rojas, 2011b); the cases of Guyana and the Dominican Republic stand out among Caribbean countries.

According to a 2009 report by Guyana’s central bank, that country’s debt to Petrocaribe totaled $143 million dollars, amounting to 15% of its public external debt, and it was expected to increase to approximately $180 million by 2010 (Rojas, 2011c). Petrocaribe’s agreement with Guyana stipulates the provision of 5,200 daily barrels of oil products, which amount to 50% of that country’s internal consumption, in exchange for alumina, although until now payments have only come in the form of rice. It has been pointed out that, in this case, trade relations are being privileged while minimizing territorial disputes over the Esequibo zone, claimed by Venezuela, which has not been discussed. Something similar has occurred with Colombia: even during the peaks of bilateral conflict, the issue of border disputes has not been touched upon. This is noteworthy, considering the centrality of sovereignty and nationalism in Venezuela’s discourse under President Chávez’s government. For the case of the Dominican Republic, PDVSA is the country’s second creditor, with a debt that amounts to 18.6% of its total external debt (Rojas, 2011b). In the context of Petrocaribe’s exchange mechanisms, the Dominican Republic has used beans as a form of payment.

According to data made public by the Vice-president for Refining, Trade, and Supply at PDVSA, Asdrúbal Chávez (President Chávez’s cousin), by mid-2011 Venezuela shipped around 200,000 barrels each day within the framework of the Petrocaribe agreement (Tovar, 2011). This agreement not only involves the provision of crude oil and oil products at subsidized prices and under special conditions; some plans have also been carried out to develop refineries in the region—for example, in the island of Curacao, Saint Croix in the Bahamas, and Camilo Cienfuegos in Cuba—which would have a daily processing capacity of 583,000 barrels. During the first half of 2011, the Cuban refinery processed over 10 million barrels (www.petrocaribe.org); and, according to statements made by the presidents of both countries, there has been an agreement with China for the expansion of that refinery and the construction of a new liquefied gas plant and a 320-kilometer gas pipeline (El Universal, 9-6-2011). Among other plans, the two leaders also underscored the construction of another refinery in Matanzas with a processing capacity of 150,000 barrels per day, the expansion of that port’s storage capacity, and the construction of an oil pipeline from Matanzas to Cienfuegos.

To all of this, one must add the construction of storage and distribution plants in Jamaica, Dominica, and Bonaires, and the establishment of the mixed enterprise Transalba, between Cuba and Venezuela, in charge of transporting oil for Petrocaribe. According to the information available on the subject, four major infrastructure projects are currently under development (www.petrocaribe.org). The first one is a liquefied petroleum gas (LPG) filling plant in Saint Vincent and the Grenadines, operating since February 2007. The second one is a fuel storage and distribution plant, inaugurated in June 2009 in Dominica. There is also the Camilo Cienfuegos refinery, reestablished in December 2007, with a daily processing capacity of 67,000 barrels. The fourth one is made up of a number of power
generation projects in Nicaragua, Haiti, Antigua and Barbuda, Dominica, and Saint Kitts and Nevis.

In terms of power generation—despite the fact that Venezuela has been facing serious problems on that matter, as power rationing and service interruptions since 2010 have made it obvious—the largest amount of aid has gone to Nicaragua (Tovar, 2011). Various power generation plants were established through Albanisa, a Venezuelan-Nicaraguan mixed enterprise that is now able to generate 71 megawatts for Nicaragua.

Just as in the case of ALBA, during the sixth Petrocaribe Presidential Summit the President of Venezuela proposed adopting a common currency (the Petro) for trade within the framework of this initiative. This proposal has not yet materialized, whereas ALBA has already adopted the Sucre. Also like ALBA, Petrocaribe has reproduced a traditional state-centric conception of cooperation and concerted action in terms of its institutional structure. Thus, Petrocaribe’s highest instance consists of its summits of heads of state and government, followed by a Ministerial Council made up of energy ministers (www.petrocaribe.org). It also has an Executive Secretariat that has been held by Venezuela, as well as a series of technical groups which develop projects dealing with energy conservation and efficient use; renewable and alternative energy; petrochemicals; gas; education and training of technical and professional cadres; verification and auditing mechanisms for the volume of supply and for the ALBA-Caribe Fund; communications; and a planning commission also in charge of fair trade.

Fuel price increases resulting from the social uprisings in the Middle East and North Africa suggest that small Caribbean states, especially mono-producers, are likely to become more dependent, and their economic vulnerability may lead to an increase in Venezuela’s influence (Griffith, 2011). The main indicator of this trend is that small states such as Dominica, Saint Kitts and Nevis, and Saint Lucia and Saint Vincent and the Grenadines are the only ones in the Caribbean to have joined ALBA, aside from Cuba’s role as a founding member.

Future scenarios

Petrocaribe and ALBA have become important venues for cooperation in Central America and the Caribbean, despite some reticence from some sectors within these societies which argue that such cooperation also entails pressure to take on a political and ideological commitment to embrace 21st century socialism and the Bolivarian model upheld by the Venezuelan government (Altmann, 2011). Even the former President of Costa Rica, Oscar Arias, declared that ALBA represents a larger cooperation mechanism for Central America than the United States and the European Union. Consequently, it has been argued that a sort of hegemony or new Venezuelan “imperialism” is coming into being in the region, along the lines of the notion of “sub-imperialisms” that was put forward in the 1970s and 80s (Arellano, 2008).

There is no doubt that the Venezuelan government sees the Caribbean as an important space for projecting President Chávez’s continental and global leadership. On the Caribbean side, it is worth noting that this leadership deepens some ideological differences due to its anti-imperialist discourse, which
seeks to favor conflict as a mechanism for change (Arellano, 2011). This has an impact on the relations of most of these nations with the United States and even with the European Union. The future of those ties is likely to be influenced by the creation of the Community of Latin American and Caribbean States (CE-LAC), which has been postponed to the end of 2011 due to President Chávez’s illness. Regarding this new organization, it is worth pointing out that Caracas is seeking to create a new space for political dialogue excluding the United States and Canada. There is, however, much doubt about its viability.

As for Petrocaribe, despite the official reports, many have questioned whether member countries are really receiving all the promised shipments and whether projects that were agreed upon are truly being executed, pointing out that Jamaica and Cuba are the main recipients and that the latter has been reselling part of its oil in the third market (Rojas, 2011a). Furthermore, it is worth looking into the initiative’s sustainability given the high costs that its maintenance represents for Venezuela. This open question is becoming more and more important, particularly when one considers the drop in oil prices and the current global financial crisis, which may entail that a larger portion of oil revenue will be needed at the domestic level, especially for the purpose of promoting President Chávez’s reelection bid, which has not changed despite his illness.

In this sense, according to PDVSA’s financial statements, during the 2008-2010 period the Petrocaribe agreements and the Caracas Energy Agreement brought about losses on crude oil shipments ranging from 455,000 to 514,000 barrels per day (Rojas, 2011a). Seeking to decrease member countries’ debt to Venezuela, PDVSA reduced the amount of royalties owed by recipient countries, thus lowering the tax amount paid by the oil state company to the Venezuelan treasury. The countries with the largest debts are Nicaragua, Jamaica, the Dominican Republic, and Guyana (Rojas, 2011a). PDVSA has also acknowledged that many of its partners lack the financial capacity to contribute to planned infrastructure projects, forcing Venezuela to cover the entirety of their cost (El Universal, 14-6-2011).

The main question is whether the government of President Chávez will be able to maintain these initiatives in the short term, in the context of today’s global, regional, and domestic realities. There are some perceptions of a trend pointing to a decline in that Venezuela’s leadership, not only in the Caribbean but also in Latin America and even at the global level. Thus, two possible scenarios have been proposed: either increased regional isolation due to President Chávez’s ideological and political rigidity, or, on the contrary, a widening and deepening of his government’s influence (Arellano, 2008).

In line with the Venezuelan government’s plans, the most optimistic scenario has to do with the possibility that, facing the unrelenting reality of high poverty and inequality levels in the region, ALBA and Petrocaribe’s discourse will receive more support, especially on the part of political groups and parties with similar ideologies. A more pessimistic scenario is that in which Venezuela’s leadership becomes limited and becomes to wane due to Caribbean countries’ dependence on its financial resources in the context of a more unstable domestic situation, a decrease in capacity for oil production, and a situation in which international oil prices make it impossible to contin-
nue subsidizing large-scale energy expenditures in the Caribbean. This latter scenario also considers that the ideological rigidity of the current Venezuelan government makes growth more difficult and instead gives rise to a rejection of that monolithic school of thought because it leads to more disintegration and fragmentation in the region.

Historically, the use of oil by Venezuelan governments in an effort to maintain and expand their influence in the Caribbean has been largely contingent on international oil prices and on domestic political dynamics. It does not seem likely that this situation will change in the short term, and Petrocaribe might have the same outcome as the San José Agreement, which sank into obscurity as oil resources ran out and close relations with Mexico came to an end. A key consideration in this sense has to

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<tr>
<th>Year</th>
<th>Event</th>
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<tr>
<td>1980</td>
<td>San José Agreement (Mexico and Venezuela sold oil to Central American and Caribbean countries at preferential prices).</td>
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<tr>
<td>2000</td>
<td>Caracas Agreement on Energy Cooperation (Puerto La Cruz, Venezuela) Signed by Belize, Costa Rica, El Salvador, Guatemala, Honduras, Haiti, Jamaica, Nicaragua, Panama, the Dominican Republic, and Venezuela. Comprehensive Cooperation Agreement between the Republic of Cuba and the Bolivarian Republic of Venezuela (Venezuela agrees to provide Cuba with 53,000 daily barrels of crude oil and oil products).</td>
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<td>2004</td>
<td>First Meeting of Energy Ministers of the Caribbean (Caracas, Venezuela) Second Meeting of Energy Ministers of the Caribbean (Montego Bay, Jamaica)</td>
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<td>2007</td>
<td>Third Summit of Heads of State and/or Government on Petrocaribe (Caracas, Venezuela). Fourth Summit Heads of State and/or Government on Petrocaribe (Cienfuegos, Cuba)</td>
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<td>2008</td>
<td>Fifth Summit of Heads of State and/or Government on Petrocaribe (Maracaibo, Venezuela).</td>
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<td>2009</td>
<td>Sixth Summit Heads of State and/or Government on Petrocaribe (Saint Kitts and Nevis)</td>
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do with the fact that there have not been any joint negotiations through CARICOM, as Petrocaribe has been advanced only through bilateral pacts. Under these circumstances, Petrocaribe does not appear to be very sustainable; rather, it seems that the most viable option for Caribbean nations is to expand their ties to other Latin American countries, especially Brazil, which has a strategy directed at furthering its ties with the Caribbean.

**Timeline of Venezuela’s recent oil assistance**

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