

# PETROCARIBE: A NEW VISION OF REGIONAL INTEGRATION

"Oil has been so far a weapon to dominate people and countries. We propose oil as a weapon to liberate them " **Hugo Chávez Frías**

## An asymmetric and unequal world

Energy has been the main driver of global economic growth. First, it was the era of biomass (wood) between 1775-1880, then that of coal between 1883-1950, and since 1950 to date the world lives on oil along with natural gas. However, these resources have also been the main cause of conflicts between nations, due to their scarce (non-renewable) nature and their asymmetric geostrategic location, generally away from the big consumption centers (the main and most powerful economies in the world), and located in the countries of the periphery, less developed.

The asymmetries regarding oil and natural gas are palpable when the statistics are analyzed. In the case of oil, it is observed that developed countries own 15% of crude reserves, produce only 29% but consume 62% of world's demand. OPEC member countries have 80% of total crude reserves worldwide while the rest 20% are in non-OPEC countries. Regarding natural gas, it is evident that developed countries own 8% of world reserves, produce only 41%, but consume 51% of world's demand. OPEC member countries have 33% of the world's gas reserves, followed by Russia with 17% while 50% are in the rest of the world<sup>1</sup>.

The global context reflects a terrible inequality between large consumers, small countries and large producers. It is evident how the northern hemisphere (developed economies) consumes more than half of the world's energy production while the countries of the south (underdeveloped, developing, and emerging economies) - which are the sovereign owners of those resources - show high levels of poverty due to limitations in energy access in an affordable, sufficient, modern way and at fair and reasonable prices. One of the dimensions of poverty is energy poverty, which can be defined as the lack of energy to promote economic growth and meet human needs<sup>2</sup>.

Lack of energy reproduces the vicious cycle of poverty and inhibits economic development. Projections show that the increase in energy demand by 2030 will come mainly from developing economies. However, the use of energy per capita in these nations will remain lower compared to the developed nations<sup>3</sup>. It is expected that by 2030

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<sup>1</sup> British Petroleum (2016), "Annual Statistical Bulletin".

<sup>2</sup> OPEC Fund for International Development (2010), "OFID and Energy Poverty Challenges".

<sup>3</sup> International Energy Agency (2010), "World Energy Outlook".

the number of people without access to electricity will be 1,500 million, representing the same level as in 2008<sup>4</sup>. Therefore, relief and the fight to reduce and minimize energy poverty should be a fundamental pillar aimed at achieving fair and equitable development among nations.

### **A new vision to face energy poverty**

In the context of this terrible global situation - where the Latin American and Caribbean region is also immersed - since the early years of his first presidential term Hugo Chávez Frías decides to reorient the national oil policy, thus making clear the Nation's doctrinal basis such be based on the following statement: "Oil has been until now a weapon to dominate people and countries. We propose oil as a weapon to liberate them". In this way he draws the idea that Venezuela's oil resources should be oriented in favor of South-South cooperation, especially in the regional sphere of Latin America and the Caribbean.

However, to achieve this goal, Hugo Chávez had to accomplish two main strategic objectives. First, the recovery of oil prices through the strengthening of OPEC by recovering its influence in the oil market in a time when the barrel of oil was facing a downturn cycle of just 7 US\$/bl in 2000. And second, to have total control of Venezuela's national oil industry (PDVSA), which until 2002 was in the hands of a management closely linked to the oil transnationals' foreign interests, the guidelines of the World Bank, the Washington Consensus and to the postulates of the Free Trade Area of the Americas (FTAA).

Once both objectives were achieved, the Venezuelan government managed to consolidate its national oil policy to integrate the Latin American market through a project entirely opposed to the prevailing neoliberal doctrine in the 1990s. Since 2000 to date the new guidelines of Venezuelan foreign policy - based on energy - are characterized by the following elements: Bolivarian regionalism, sovereignty over natural resources, integral geopolitical vision, Latin Americanist approach, non-interference in the national affairs of neighbor countries, humanistic and social approach, solidarity, complementarity, cooperation and flexibility, regional energy integration as a matter of security of States, and the political will to resolve the region's economic and social asymmetries including access to energy resources. For Hugo Chávez, and for the Bolivarian Government of Venezuela, energy is the main axis of the integration process in Latin America and the Caribbean.

The Venezuelan government began to lay the foundations of the new regional energy geopolitics - based on solidarity, complementarity, flexibility, respect, and cooperation - with the signature of the Energy Cooperation Agreement of Caracas along with countries of Central America and the Caribbean<sup>5</sup>, and the Comprehensive Cooperation Agreement

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<sup>4</sup> Idem.

<sup>5</sup> In the first stage, ten countries signed bilateral agreements with Venezuela: Belize, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, and the Dominican Republic.

between Venezuela and Cuba, both in the year 2000. With the former the rigidity of the previous Energy Cooperation Program or Pact of San José - signed together with Mexico in 1980<sup>6</sup> - was overcome by introducing a modification to incorporate other countries. With the latter, new special financial provisions were allowed for the long-term oil bill introducing grace periods and low interest rates, as well as the possibility of offsetting the invoice through the exchange for goods and services.

An important feature of these new generation of commercial alliances is that commercial and energy exchange is exclusive between public entities endorsed by the governments, thus reconquering the role of the State and reducing the intermediation costs imposed by the transnational companies that commercialize crude oil and refined products in the region. With these new elements and new paradigms, a Caribbean alliance began to be built contrary to the guidelines of the FTAA and away from the North American hegemony.

### **ALBA-TCP as a counter-hegemonic mechanism**

Parallel to this process, the Third Summit of the Americas takes place in April 2001, in Quebec City, Canada, where Hugo Chávez formally announces the rejection of the neoliberal proposal of the FTAA by the Venezuelan Government. Later in December 2001 during the III Summit of Heads of State and/or Governments of the Association of Caribbean States the idea of the creation of the Bolivarian Alliance for the Peoples of Our America or Peoples Trade Treaty (ALBA-TCP) was proposed as an agreement for economic, social, political, and cultural integration based on independent development with emphasis on regional complementarity and promotion of solidarity and respectful cooperation.

This innovative initiative was officially launched in December 2004 during the presidential meeting between Hugo Chávez and Fidel Castro in Havana, Cuba, where the protocols for the founding of ALBA-TCP were signed. By April 2006, Bolivia is incorporated, and then Nicaragua (2007), Dominica (2008), Honduras (2008), Ecuador (2009), Saint Vincent and the Grenadines (2009) and Antigua and Barbuda (2009). The ALBA-TCP is born as an instrument that signals the new direction of integration with a vision of social justice and making possible commercial exchanges throughout social programs and economic grand-national projects.

### **The inclusive integrationist policy of Hugo Chávez was born in the Caribbean**

The new stage in Venezuelan foreign policy begins to design a regional integration plan based on a strategic alliance between public energy operators, thus allowing their strengthening and turning them into effective instruments to ensure energy supply in the region. It was a progressive process that began to materialize through sub-regional

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<sup>6</sup> Where both countries supplied about 160,000 barrels per day (80,000 each).

agreements such as: PETROCARIBE. In this way, integration began to be conceived as a "State matter", where a political will must guide the effort, with an economic vision and with a social focus.

The first regional integration approach using energy as a transversal axis began in the Caribbean region in 2005 with the signature of the PETROCARIBE Energy Cooperation Agreement, having the vision of building and strengthening the integration with Central America and the Caribbean through a regional energy agreement that contemplates the postulates of the ALBA-TCP signed a year earlier.

The main objective was to resolve the asymmetries in the access for energy resources by using a new favorable supply scheme along with an equitable and fair exchange among the signatory countries. It was precisely in the Caribbean where the foundations of Hugo Chavez's strategic vision of the re-launching of the active energy diplomacy in Latin America were laid. This is how the San José Pact of 1980 evolved towards the Caracas Energy Cooperation Agreement and the Comprehensive Cooperation Agreement between Venezuela and Cuba in 2000, to the current PETROCARIBE Agreement since 2005.

### **PETROCARIBE Energy Cooperation Agreement: A decade of progress**

PETROCARIBE was born from the signature of an Energy Security Treaty between 19 countries: Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Dominican Republic, San Cristóbal and Nieves, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Venezuela<sup>7</sup>. It was defined as a multilateral organization that ensures the coordination and articulation of public policies on energy, including: the administration of production, refining, transportation and oil supply, natural gas, and oil refined products; the efficient use of energy; technological cooperation; development of energy infrastructure; and the use of energy alternative sources (wind, solar and others)<sup>8</sup>.

The doctrinal platform is based on three main elements: 1) complementarity and shared solidarity; 2) State administration over energy resources; and 3) conservation of non-renewable and exhaustible natural resources. Its principles are those of union, solidarity, cooperation, complementarity, energy security, sovereign use of energy resources, conservationist vision and south-south cooperation<sup>9</sup>.

Its strategic objectives include: a) minimize the risk associated with the security of energy supply of member countries; b) defends the sovereign right to manage exploitation rates of non-renewable and exhaustible natural resources; c) minimize the costs of energy

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<sup>7</sup> Guatemala withdrew from the Agreement by Presidential Decree in 2014.

<sup>8</sup> Constitution and Statute of PETROCARIBE, in its revised version and adopted by the Ministerial Council on September 5, 2005.

<sup>9</sup> Idem.

transactions between member countries; and d) creates mechanisms to ensure that the savings from the energy bill discounts and PETROCARIBE's special financial provisions are a contribution to the fight against poverty, unemployment, illiteracy and lack of medical assistance in member countries<sup>10</sup>.

PETROCARIBE was conceived as an energy cooperation initiative aimed at offering financial provisions and direct energy supply to member countries to reduce intermediation in the hydrocarbon market, thus guaranteeing energy security and stability in the region. It makes use of a novel exchange scheme between member countries - most of them net energy importers without government control of the supply chain - by creating joint ventures between PDVSA and stated owned energy companies to directly manage energy access in member countries, thus breaking out with the traditional commercialization mechanism of crude and refined products in the region.

Specifically, Hugo Chávez's integrationist oil diplomacy began with PETROCARIBE, proposing five strategic lines of action: 1) construction of a network of refineries in the Caribbean to process Venezuelan crude from the Orinoco Oil Belt (the world's largest crude oil reservoir); 2) export of natural gas, through a trans-Caribbean gas pipeline using Venezuela's offshore gas resources; 3) development of the petrochemical industry; 4) promotion of alternative energies such as solar, wind and biofuel; and 5) efficient use of energy<sup>11</sup>.

It is important to highlight that PETROCARIBE's countries are net energy importers (except Trinidad and Tobago, and Venezuela) highly dependent on oil and refined products, mainly for electricity generation<sup>12</sup>. In contrast, these countries have important storage centers for crude and refined products given their proximity to the US, thus having a very important geostrategic location in the American continent. PETROCARIBE has 85 million people with an average consumption of 760,000 barrels per day (increase of 36% in the last 10 years<sup>13</sup>) which represents 11% of annual GDP<sup>14</sup>. Supplies come mainly from USA (Gulf of Mexico), Venezuela, Trinidad and Tobago, Colombia, Mexico, and West Africa.

Due to the history of colonialism and Anglo-Saxon domination in these countries the commercialization routes, storage and distribution centers have been - until the creation of PETROCARIBE - in the hands of transnational companies (Esso, Chevron, Shell, Trafigura, Glencore, Texaco, and Puma<sup>15</sup>), thus increasing intermediation costs and the final price of energy by up to 20%<sup>16</sup>.

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<sup>10</sup> Idem.

<sup>11</sup> Palma, Manuel (2007). "El Tratado de Seguridad Energética selló la reunión del Caribe".

<sup>12</sup> Purvin & Gertz (2015). Annual World Petroleum Outlook.

<sup>13</sup> Idem.

<sup>14</sup> PDV Caribe (2016), "Annual Management Report".

<sup>15</sup> PDV Caribe (2016), "Annual Management Report".

<sup>16</sup> Ruiz-Caro, Ariela (2006). "Cooperación e integración energética en América Latina y el Caribe", CEPAL, División de Recursos Naturales e infraestructura.

It is important to highlight that given the sharp increase in oil prices by 2005 the non-energy producing countries the Caribbean region were importantly affected showing marked levels of poverty as consequence of higher energy bills. Their national budget suffered severe contraction facing the intermediation and speculation in the oil market. To reverse this situation, the PETROCARIBE Agreement designed a financing mechanism for the oil bill that constitutes a substantial leverage to the Member Countries economies. Likewise, the formation of Joint Ventures among national companies offer the possibility of reducing and/or eliminating the intermediation costs.

After a decade of PETROCARIBE important advances and achievements can be observed, thus showing in praxis that a regional integration mechanism promoting regional socioeconomic development is perfectly possible. PETROCARIBE is forged from political and strategic alliance towards the construction of a multi-polar world by providing energy on favorable terms to Member Countries.

According to PETROCARIBE's management report of April 2016, 340 million barrels of oil have been supplied (120,000 barrels per day)<sup>17</sup>, which represents a total value of US\$ 30,000 million or approximately US\$ 2,000 million annually. In this way, PETROCARIBE has managed to cover close to 40% of total oil demand of member countries, permitting significant savings for their national budgets. This mechanism allows to finance up to 70% of the oil bill if crude prices exceed US\$ 150 per barrel. Also gives a two years grace period, after which the Member Country starts paying 1-2% per annum during a long-term period that can range between 17-25 years<sup>18</sup>.

One of the greatest achievements within this new paradigm of regional integration mechanism has been the contribution to social development in Member Countries throughout the long-term financed portion of the oil bill mentioned above, the creation of the ALBA Caribbean Fund and social investment from the JVs. Since the beginning of the agreements the total social contribution amounts up to US\$ 7,500 million. The oil bill savings have allowed the sponsoring of more than 750 projects in the region covering a wide range of sector as diverse as agriculture, education, electricity, potable water, institutional strengthening, culture and sports, environment, roads infrastructure, and housing<sup>19</sup>.

Specifically, the total investment in energy infrastructure in Member Countries exceeds US\$ 1,000 million. Regarding crude and refined products transportation, PETROCARIBE acquired a transport capacity of 980,000 barrels by purchasing two oil vessels through an investment of US\$ 140 million. In terms of storage capacity, PETROCARIBE has a volume of 652,000 barrels throughout an investment of US\$ 170 million in ports

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<sup>17</sup> The PETROCARIBE Agreement stipulates differentiated supply quotas for each country, according to their needs and requirements.

<sup>18</sup> The higher the price of oil, the higher the percentage to be financed, the lower the interest rate and the greater number of years to pay.

<sup>19</sup> PDV Caribe (2016), "Annual Management Report".

enhancing and retail stations, thus achieving a more flexible supply logistics for the Member Countries.

Regarding refining, nowadays PETROCARIBE has a processing capacity of 135,000 barrels per day by reactivating refineries in Cuba, the Dominican Republic and Jamaica, investing US\$ 360 million<sup>20</sup>. Electrification also stands out with an investment of US\$ 350 million to install 447 megawatts in 16 thermoelectric plants in Haiti, Nicaragua, St. Kitts and Nevis, and Saint Vincent and the Grenadines, along with wind farms in Jamaica and Nicaragua<sup>21</sup>.

Likewise, to comply with the strategic objectives of PETROCARIBE and to make viable the energy cooperation policy derived from the agreement 12 JV companies were set up between PDV Caribe - a subsidiary of PDVSA created for PETROCARIBE - and national energy companies of Member Countries. In this way the technical and technological capacities of the Member Countries are enhanced, thus developing common projects to manage energy resources.

A novel aspect of PETROCARIBE's solidarity and complementary vision is the so-called PETROCARIBE Compensation Mechanism approved during the Fifth Meeting of the Ministerial Council (2009), which provides the possibility of paying part of the long-term financed oil bill with goods and services, thus promoting fair trade, and strengthening relations between Member Countries. To date, six countries have implemented this mechanism: Salvador, Guyana, Nicaragua, Jamaica, Dominican Republic, and Suriname. A total of US\$ 3,864 million were compensated by 2015 equivalent to 3,356,484 metric tons of goods, in addition to medicines and live cattle<sup>22</sup>.

At the same time - following Hugo Chávez's thoughts about "turning PETROCARIBE into an anti-hunger shield to protect ourselves from poverty, from hunger" (2008) - the ALBA Caribe-Food Fund was created with the objective of guaranteeing the food security of Member Countries through the development of agricultural programs to increase production in a sustainable manner.

After verifying the effectiveness of this initiative, FAO referred to PETROCARIBE as "the groundwork of food security for Central America and the Caribbean countries"<sup>23</sup> and sponsored the conception of the "Regional plan to eradicate hunger and poverty 'Hugo Chávez Frías' " in tribute to a political leader who redesigned the way to redistribute wealth and income using energy as a tool to achieve progress.

Looking ahead, this energy agreement faces important challenges, such as: the consolidation of a PETROCARIBE Economic Zone - created in 2013 but still under revision - with the aim of increasing and diversifying commercial and productive exchange

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<sup>20</sup> There are other projects in execution in Cuba and Nicaragua to reach 385,000 barrels per day of processing.

<sup>21</sup> PDV Caribe (2016), "Annual Management Report".

<sup>22</sup> Idem.

<sup>23</sup> FAO (2005), "PETROCARIBE, 10 years of struggle against hunger and poverty".

among other multilateral mechanisms (ALBA-TCP, CARICOM, ALADI, and MERCOSUR). In this way, it is intended to stimulate the economic, social, and cultural development of countries reaching diverse topics like transport, communications, productive chain, social and cultural integration, commerce, and tourism.

In short, PETROCARIBE is an unprecedented successful example in the hemisphere of expanded cooperation achieved through sustainable commercial ties with a multidimensional approach to solve the region's problems. To accelerate cooperation and increase the social impact of regional initiatives such as this it is necessary to continue moving towards a shift in paradigms as well as the generation of greater institutional cooperation, participation of the beneficiaries in each of the projects steps, broad political support from national, regional and local governments, innovative public policies to build a strong integrationist legal framework, and regional planning to maximize synergies between countries and institutions.

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