Venezuela: instability and the impact of potential changes to the PetroCaribe scheme on the Caribbean Basin

Across the Caribbean concern has been expressed about the implications of civil unrest in Venezuela and what this might mean for the long term future of the PetroCaribe arrangement, the concessionary agreement which underpins most Caribbean economies through the supply of oil at concessionary prices on deferred terms. This is because almost all Caribbean Basin nations have come to rely on its continuation to underwrite regional economic and social stability.

Signatories to the agreement are Antigua, Belize, Cuba, Dominica, Grenada, Guatemala, Guyana, Haiti, Jamaica, Nicaragua, the Dominican Republic, St Kitts, St Vincent and the Grenadines, St Lucia, and Suriname. Barbados, Trinidad, the Bahamas, Costa Rica, Panama and El Salvador are not signatories. Guatemala and Honduras withdrew after it became clear that the interest rate it would be charged had doubled.

The arrangement allows for the state owned oil company PDVSA (Petroleos de Venezuela) to sell crude oil and oil products to member state enterprises on preferential credit terms. Recipient countries have up to 25 years to pay back costs, with a 2 per cent interest rate if oil is under US$40 dollars per barrel and 1 per cent if it is priced higher. Member countries receive the product with 40 per cent financing when the price is above US$50 dollars per barrel, 50 per cent if it is above $80 per barrel, and 60 per cent if it reaches $100 per barrel or more.

Additionally, there are possible grace periods of up to two years as well as a facility for short-term payments of up to 90 days. There is also a scheme for paying for a portion of oil costs with goods and services, a provision that has made Venezuela into Cuba’s principal trading partner.

In the case of Cuba, the arrangement meets more than two thirds of the country’s oil needs, and a trade relationship that has resulted in a net benefit to Cuba which some published figures suggest stood at around US$3,500 million in 2010. Cuba is also believed to informally trade Venezuelan oil and related refined products on the international market.

It has also changed the nature of the region’s long-term indebtedness with Caracas projecting that over one third of the Caribbean Basin’s external debt by 2015 will be owed to Venezuela. PDVSA has become one of the main creditors to the Dominican Republic, Nicaragua, Jamaica, and Guyana through PetroCaribe and to countries such as Bolivia, Paraguay, and Uruguay through the Caracas Energy Agreement.
For the last few years, Venezuela’s oil exports to the US, its major market, have been in a steep decline as the US has become a net exporter of oil sands and gas from shale; local oil consumption of around 700,000 barrels per day is charged for at rates far below the cost price; up to 400,000 barrels per day of oil are exported on concessionary terms to meet the requirements of all PetroCaribe and ALBA members; around 130,000 bpd go to Cuba in exchange for services valued at around US$10 billion a year. At the same time the country is having difficulty servicing a US$49.5 billion loan agreement between China and Petroleos de Venezuela, SA (PDVSA) that ended in 2013 but of which only around US$20 billion has been repaid in oil. Nevertheless, earlier in March 2014 it was announced that Venezuela obtained a further $5 billion from China and another $2 billion from Russia against future oil deliveries.

This suggests that whatever happens on the streets, Venezuela is faced with a domestic economic scenario that will be hard to resolve unless mechanisms are put in place to increase revenues from its oil, and decisions are taken to move the industry onto an efficient, sound and more orthodox long-term footing. This would appear to mean that a change to the terms of the PetroCaribe arrangement is likely.

Unsurprisingly, the programme has become the subject of domestic criticism in Venezuela. Support for it has been less than enthusiastic among members of the governing PSUV, the National Assembly, and the state-owned oil company PDVSA, and crucially the armed forces, with some pressing for change.

So much so that last October senior figures within PDVSA were reported by the London-based specialist energy publisher Argus Media as saying that it was likely that the interest rate payable by all PetroCaribe members will have to double by the end of 2014.

How potent a threat to Venezuela’s ruling PSUV continuing demonstrations are is unclear, but they represent the biggest political challenge President Maduro has had to face since he took office in April 2013. Despite this, support for what is happening has largely not crossed over from the middle class to the working class and the poor. That said, many of the views expressed by the protestors reflect the concerns of the majority of Venezuelans about the chaotic state of the domestic economy and the collapsing standard of living in a country that has vast reserves of oil.

Against this background the most likely short term scenario that will face much of the Caribbean is a doubling in interest rates. Although there may be some exceptions such as Cuba, where there is a long-term oil and investment for services agreement, and Jamaica, which has an assurance at least until the country’s four-year loan deal with the IMF expires in 2017, most Caribbean nations will need to prepare for what this will mean.

Are there alternatives?
In the US and in Europe thought is now being given to the ways in which energy in the form of natural gas together with longer term programmes related to renewable energy might form a part of a new economic initiative in the region. This approach so far is as much development driven as political and may perhaps represent a long term alternative to PetroCaribe. The objective would be to enable the Caribbean to boost its high cost economies by reducing energy prices.

However, since any outcome short of the US offering a more favourable concessionary energy programme than that available under PetroCaribe by licensing of exports of shale is unlikely to significantly reduce energy costs in the short term, it is hard to see how ideas for new or any alternative US schemes can help restore Caribbean growth.
Moreover, any US initiative that might provide natural gas to the Caribbean would take years to put in place because of the absence of receiving terminals. It is therefore far from clear how heavily indebted Caribbean nations might meet any rapid increase in pricing by Venezuela.

China, Saudi Arabia and Russia are also known to be interested in replacing Venezuela if the present arrangements were to end, although it is hard to see how terms more favourable than those offered by Venezuela might arise if any new commercial arrangement was reached for the supply of crude and refined products or natural gas.

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