

Expanding its sphere of influence:
Venezuela in the Caribbean

By

Sir Ronald Sanders

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This presentation is concerned with the expansion of Venezuela's influence in the Caribbean and the potential repercussions that could arise for the Caribbean as a result of the growing antipathy between the US and Venezuelan governments.

I believe it is true to say that prior to 2005, Venezuela had little influence in the Caribbean Community (CARICOM) countries, even though for years it maintained diplomatic missions in virtually every CARICOM country.

CARICOM concerns with Venezuela centred on three things:

- Venezuela's claim to two-thirds of Guyana;
- Venezuela's passage of a law in 1978 which asserts not only ownership of Aves island in the Caribbean sea but also treats it as an "island" and not a "rock" as defined by the UN Convention on the Law of the Sea, therefore entitling Venezuela to an Exclusive Economic Zone which would impinge on the maritime entitlements of Antigua and Barbuda, St Kitts-Nevis, Dominica, St Lucia and Montserrat; and
- Venezuela's participation in complaints to the World Trade Organisation (WTO) over the Caribbean's preferential access to the European Union market for bananas.

These three concerns defined CARICOM's relationship with Venezuela and featured regularly in Communiqués issued by its heads of government.

Equally, the issue of Aves Island was regularly treated as one of contention in the declarations of the Organisation of Eastern Caribbean States (OECS).

Then three events occurred.

First, CARICOM countries – with the exception of Trinidad and Tobago which is itself a producer of oil and natural gas – suffered from skyrocketing oil prices which reached unprecedented levels placing an enormous burden on their economies and stunting development.

Second, the government of President Hugo Chavez in Venezuela benefited greatly from high oil prices. When President Chavez came to power in 1999, the price of a barrel of oil was \$10. During his time in office, the price rose to as much as \$75 a barrel before dropping off to its average of between \$55 and \$60.

This has given President Chavez considerable capacity to manoeuvre domestically and internationally and to challenge the old order of power in Latin America and the Caribbean.

Paying off debts to the World Bank last week, five years ahead of schedule - having already paid off the IMF - with the declaration from the Finance Minister "Goodbye to you... Venezuela is free and sovereign", illustrates the scope of the Venezuelan government's manoeuvrability.

Third, President Chavez became more strident than he had been in his anti-American stance and his denouncing of the US initiative for the establishment of a Free Trade of the Americas Area (FTAA) which he described as a vehicle for "US imperialism" and said "should be buried".

In the course of developing what he calls "a new era of 21st Century Socialism" in Venezuela which includes nationalisation of some of the assets of foreign-owned companies, President Chavez also articulated the concept of a "Bolivarian Alternative for the Americas" (ALBA) as a substitute to the FTAA.

In 2005, President Chavez launched two initiatives directed at the Caribbean – Petro Caribe and an ALBA-Caribe Fund.

Briefly described Petro Caribe consists of two sets of Agreements: first a framework accord, the Energy Co-operation Agreement, which was signed by several CARICOM governments in June 2005; and, second several bilateral energy agreements which were subsequently signed between individual CARICOM governments and the government of Venezuela.

Under Petro Caribe, Venezuela provides crude and refined oil products to the participating Caribbean states for part payment within 90 days. The balance is then to be paid over a period of 23 to 25 years at 1% interest as long as the cost of a barrel of oil does not fall below US\$50 when the interest rate would rise to 2%. Petro Caribe is in essence a loan facility and not oil at a discounted price or cheap oil.

Under the ALBA-Caribe Fund, to which Venezuela has subscribed \$50 million, participating countries can draw for financing social and economic programmes.

The question now arises as to what do Venezuela and the participating Caribbean governments get from these initiatives?

Clearly, in the case of Venezuela, it is an effort by President Chavez to weaken US sway over the region and extend his own influence in the area.

At the signing of Petro Caribe, President Chavez said that he wanted the Caribbean to be a “sea of resistance” to US imperialism. Further, CARICOM countries represent almost half of the 34 votes in the Organisation of American States where debates on the hemispheric political situation are played out; and they are a solid bloc in the Latin and American and Caribbean group at the UN.

With respect to the participating Caribbean countries, they derive immediate relief from payment of the full cost of their oil requirements under Petro Caribe which eases their cash flow and allows them to spend on other projects.

Some of them also recognise an opportunity to get help from Venezuela for infrastructural projects for which they have been unable to raise funding elsewhere.

By the same token, it has been argued that since Petro Caribe is effectively a part loan arrangement, the debt of the participating governments will increase

and a day of reckoning will come particularly since 14 of these countries are already amongst the 30 most indebted nations in the world in relation to their GDP.

In any event, the immediate payment relief and the social projects under the ALBA-Caribe Fund have proved to be sufficient incentive for several CARICOM governments to sign up to Petro Caribe.

It is significant that some of the countries that signed up did so despite receiving a letter dated 27th June 2005 from the US State Department that was heavily critical of President Chavez saying that “democracy was being threatened under his rule” and accusing him of destabilizing neighbouring countries by supporting radical groups.

The letter was ignored by many Caribbean leaders in part because they were concerned about the unilateralist practices of the Bush Administration and the demonstrable lack of meaningful involvement by the US in the economic and social issues that most concern CARICOM governments.

These leaders take some satisfaction in Chavez's unbridled criticism of US policies.

He is doing what they can not afford to do.

In any event, they would have been perfectly aware that while they were being urged not to deal with the Chavez government, the US continued to be the largest market for Venezuelan oil.

As many of them would have seen it: If the US could continue to deal, in its own self-interest, with the Chavez government despite all the matters identified in the State Department letter, why shouldn't Caribbean governments? Particularly as the US remained neglectful of the issues that most concern the Caribbean.

These issues remain: official development assistance to build infrastructure and to provide employment, to alleviate poverty, and to finance human resource development and the provision of health services.

Since the end of the cold war, US official development assistance to CARICOM countries has dwindled and has focused only on issues of concern to the US; issues such as the interdiction of drug traffickers; port and airport security as part of the US war on terror; and illegal migration.

And while the US has been neglectful of the Caribbean's needs for assistance, it has been proactive on issues of trade in goods and services that have hurt the region.

These include joining as a complainant with Latin American countries, including Venezuela, at the WTO to protest preferential access to the European Union market for bananas from CARICOM countries; US antagonism to the offshore banking industry in the region; and, so far, non-compliance with a WTO ruling in favour of Antigua and Barbuda that the US should bring its domestic laws into conformity with its international obligations and allow the delivery into the US of internet gaming and betting services from Antigua.

US unilateralist actions have deprived Washington of any sympathy for many of its positions.

The disregard for the UN Security Council over Iraq and the subsequent invasion; the reversal of the US government's commitment to the Kyoto protocol at a time when the region is facing increased and stronger hurricanes; the reported atrocities at Abu Ghurayb; the detention of prisoners without charge at Guantanamo; and the continued imposition of an embargo against Cuba, have all contributed to a decline in US-CARICOM relations at an official level.

A vacuum was left in the Caribbean by US neglect. And, Venezuela filled it by its readiness to provide help to counter the damaging effects of high oil prices.

It should be noted, however, that the readiness to embrace the Venezuelan government's initiatives does not include all CARICOM countries, nor indeed does it include all the actors within some of the CARICOM States whose governments have drawn closer to President Chavez.

The government of Barbados has not signed on to Petro Caribe on the basis that it is a loan facility, and even though it is on soft terms, it is still a debt and fiscal management dictates that such debt be avoided; a new government elected last December in St Lucia has indicated that it may not pursue membership of Petro Caribe even though the previous government had signed up to it;¹ the former Prime Minister of St Vincent & the Grenadines, Sir James Mitchell, has said that he doesn't "want to be friends with anybody who is nationalising everything in the country where its currency is continuously devaluing";² just a few days ago on April 12th the government of Suriname indicated that it has not fully signed on to Petro Caribe in part because Venezuelan oil would be granted access to the Surinamese market, a factor that could be detrimental to the state-owned oil company, Staatsolie;³ and the government of Guyana has clearly decided that, given its peculiar position with Venezuela maintaining a claim to two-thirds of its territory, it cannot make itself wholly reliant on Venezuela for its energy needs: it has opted to take only half of its petroleum requirements under Petro Caribe, the other half continuing to come from Trinidad and Tobago.

The Petro Caribe agreement has also had a polarizing effect on CARICOM itself particularly in relation to Trinidad and Tobago. And, the cost of this may be counted in the future.

¹ Caribbean Media Corporation (CMC) report: "St Lucian government not interested in Venezuela's Petro Caribe initiative", 20th February 2007

² Sir James Mitchell, Address to 21st Annual Convention of New National Party in Grenada, March 2007

³ "Suriname government not ready for Petro Caribe deal", CMC (CANA) report, Paramaribo, 12th April 2007.

Venezuela has now replaced Trinidad & Tobago – a founder member of CARICOM – as the main energy supplier in CARICOM in contradistinction to three Articles of the Revised CARICOM Treaty, one of which – Article 79 – obliges member states “to refrain from trade policies and practices the object or effect of which is... to nullify or impair benefits to which other member states are entitled under the treaty”.

And, while the Trinidad and Tobago government eventually decided to facilitate Petro Caribe, its Prime Minister, Patrick Manning, is on record as saying that his country would not step into help if there is any break in supply from Venezuela in the future.

He made it clear that “if we have to shift the markets from the Caribbean to, say, North America, all of our output would be committed to our new markets. Therefore in the event of a disruption of supply we would not be able to keep the market satisfied”.⁴

The fate of a Petroleum Fund, established by Trinidad and Tobago in 2004 to provide relief to CARICOM countries experiencing hardships because of high prices for crude oil and petroleum, products, remains unclear.

In 2004-2005, the Fund was used to provide budgetary support to the government of Guyana following wide-spread flooding; to assist the government of Grenada in its recovery from Hurricane Ivan; and to provide a grant to LIAT to help in the airline’s restructuring.

But, as a CARICOM Secretariat document observes: “Implicit to the establishment of the Petroleum Fund is the assumption that CARICOM member states would source their petroleum related needs from Trinidad and Tobago”.⁵

⁴ Text of a reporting English by Spanish News Agency Efe: “Caricom leaders seek energy talks with Venezuelan President”, Madrid, 16th February 2007

⁵ “Caribbean Trade & Investment Report 2005; Corporate Integration & Cross Border Development”, CARICOM secretariat, Guyana, 2006, p. 53

Why the Trinidad and Tobago government decided, in the end, to facilitate the Petro Caribe agreement is best known by the government itself.

However, the fact that Trinidad can now proceed to divert its oil and gas supplies from CARICOM countries to the United States is one clue, and another is that the Trinidad government was interested in settling its own arrangements with Venezuela to exploit oil and gas reserves along their maritime border.

On 20th March, President Chávez and Prime Minister Manning signed an energy agreement to share the hydrocarbon reserves located on the border between them, including oil and natural gas. The costs and benefits will be divided between the two states depending on the amount of participation of each government, guaranteeing a policy that will allow for the development of both nations.⁶

While precise and full information on what has flowed to CARICOM countries under Petro Caribe and ALBA Caribe is not readily available, the following has been gleaned from numerous press reports:

- Dominica has received asphalt, University scholarships, \$12 million for housing and a fuel storage tank. Venezuela has committed to building an oil refinery in Dominica to process 10,000 barrels of oil per day, but amid protests that this would spoil the naturalness of the island, the Dominica government has delayed implementation of the project pending the results of an environmental impact study;⁷
- In St Vincent a liquid natural gas facility has been built and a fuel storage tank is to be built. Further, the Venezuelan government has promised to help build an international Airport on St Vincent at a cost said to be in the region of \$200 million;⁸

⁶ “Trinidad and Tobago signs energy agreement with Venezuela”, Chris Carlson, Venezuelanalysis.com. 21st March 2007

⁷ “Dominica government, environmentalists agree on oil refinery assessment”, Caribbean Media Corporation (CMC) report, 22nd March 2007.

⁸ “Chavez tries to woo Caribbean: Leftist calls for anti-imperialist unity, blasts NAFTA, promotes his agenda”, Associated Press, 18th February 2007.

- In Antigua, three fuel shipments of approximately 90,000 barrels each have been delivered. Venezuela also made \$7.8 million available to upgrade the Airport prior to Antigua hosting games in the current World Cup Cricket tournament, but it is unclear whether this loan is part of the ALBA-Caribe Fund;
- In Jamaica, a line of credit has been provided for infrastructural projects such as a freeway, a sports centre and renovation of the Cultural centre. Jamaica is reported to be receiving 23,500 barrels of oil per day from Venezuela under Petro Caribe since July 2006.⁹ There is also a promise to upgrade an oil refinery;
- Guyana has not yet accessed any oil shipments under Petro Caribe because of a concession rate that was being negotiated due to Guyana's classification as a Highly Indebted Poor Country. Current information is that this hurdle has been cleared and shipments will begin. In the meantime, Guyana has applied for and been granted funding of \$1.5 million under the ALBA- Caribe scheme for a homeless shelter; and
- Haiti has been promised \$1 billion for several projects including equipment for the construction of housing; support for Cuban personnel in Haiti; and to construct four power plants. Given the size of these funds, it is assumed that they are outside the ALBA-Caribe arrangement.

These loans, grants and deferred payments from Petro Caribe and ALBA Caribe all amount to a great deal of money to be found by Venezuela. The total sum that the country will have to pay out when its commitments to others are added is phenomenal.

It includes help to other Caribbean countries - Cuba and the Dominican Republic; to Nicaragua where an oil refinery estimated to cost \$2.5 billion has

⁹ "Government of Jamaica to funnel Petro Caribe funds to public bodies –IMF", Jamaica Gleaner, 15th September 2006.

been promised;¹⁰ to Argentina which has already received investments of \$3 billion; to Bolivia where last month alone Venezuela sent \$17 million in disaster relief aid, including 180 tons of tools, food and medicine, as well as helicopters, tractors and water purifying equipment;¹¹ and to Ecuador to build a refinery and expand an existing one.¹²

This considerable generosity to its neighbours is occurring at a time when the Venezuelan currency is devaluing in the informal domestic market and President Chavez's domestic programme at home to transform conditions for the poor and to curb rising inflation is demanding a great deal of money, as is an increase in military spending in Russia on 24 fighter aircraft, 54 military helicopters and other items of military equipment said to be valued at \$ 3 billion.¹³

Additionally, in an effort to reduce reliance on the US as a market for Venezuela's oil, Petroleos de Venezuela (PDVSA) the State-owned oil company – whose earnings have provided most of the money to finance these projects – has been subsidising the costs of shipping oil to China and India to the tune of about \$3 a barrel.¹⁴

Within the next few weeks, PDVSA will also have to find the money to pay six large oil companies for a 60% stake in joint ventures operating in the Orinoco Oil fields. The companies are said to have invested \$17 billion in the oil fields and it is assumed that Venezuela intends to pay them negotiated compensation for the 60% stake even though President Chavez announced last week that government ministers will be accompanied by the armed forces when they go in to take control.

¹⁰ "Venezuela's Chavez continues whirlwind Latin American and Caribbean tour", Venezuelanalysis.com, 13th March 2007

¹¹ "Bolivia's 'Oligarchy' blocks Venezuela Plant, Chavez says", Alex Kennedy, Bloomberg, 12th April 2007

¹² "Venezuela to build new refinery in Ecuador", Agencia Latino Americana de Informacion y Analisis, 2 Venezuela, 5 June 2006

¹³ "With friends like these", The Economist, 31st August, 2006.

¹⁴ Latin America Newsletter: Special report, December 2006.

PDVSA has borrowed more than \$11 billion since the start of this year, raising \$7.5 billion from a bond offer last month, and President Chavez has indicated that the company may go back to the market yet again.¹⁵ This is a fairly rapid debt build up, underscoring that President Chavez is very dependent on oil prices remaining high to pay for his various programmes including Petro Caribe and ALBA Caribe. And, obviously, he will do everything he can within OPEC to achieve this.

So two things emerge from all this:

One, President Chavez needs oil prices to remain high to continue his various programmes; and two, having committed their energy security to Venezuela, Caribbean governments need the government of Venezuela – now and in the future – to be favourably disposed to continuing the Petro Caribe arrangements once oil prices remain high.

Of course, if the price falls below \$45, the Venezuelan economy will be in some trouble and the government will have grave difficulty funding these programmes. Anyhow, at \$45, the Caribbean would no longer need the agreement.

In any event, as a consequence of Petro Caribe and ALBA-Caribe, relations between the Venezuelan government and the governments of several CARICOM countries are now very friendly and, in at least two of the troublesome issues that characterised their relationship prior to Petro Caribe – Aves Island and bananas – tensions seem to have abated. Only the Guyana territorial claim lingers.

Both the Prime Ministers of Dominica and St Vincent & the Grenadines are reported to have said recently that the OECS countries, which were previously vociferously upset about the ramifications to their maritime boundaries of

¹⁵ “Venezuela’s Chavez challenges oil companies to sue over nationalisation”, Associated Press, 13th April 2007

Venezuela measuring its exclusive economic zone from Aves Island or Bird Rock, have now accepted Venezuela's sovereignty over the island or rock.¹⁶

A few years ago, the governments of Antigua and Barbuda, St Kitts-Nevis, St Lucia, and St Vincent & the Grenadines had formally registered objections to the United Nations about three maritime boundary treaties relating to Aves Island between Venezuela on the one side and the governments of the United States, Netherlands and France which were signed in happier times between them in 1978.

The objection is based on the fact that these three treaties granted Aves the legal status of an island and therefore the capacity to generate a maritime jurisdiction. The four Caribbean islands argued that Aves is a "rock" not an "island" as provided for in the Law of the Sea Convention and since it cannot sustain human habitation or economic life of its own, it should have no exclusive economic zone.¹⁷

By agreeing to Venezuela's sovereignty over Aves, the argument about it not generating an exclusive economic zone has not been surrendered. That argument turns on whether Aves is an "island" or a "rock" as defined in the Law of the Sea Convention. And, by the most liberal interpretation, it is most certainly a rock incapable of sustaining life on its own.

With regard to Venezuela's claim to two-thirds of Guyana, President Chavez visited Guyana in February 2004 for one day and blamed the United States for keeping the border controversy alive during the decades of the 1960's to 1980's so as to avoid another Cuba in Guyana. He is reported to have played down Venezuela's territorial claim, preferring to concentrate on closer ties.¹⁸

¹⁶ "Eastern Caribbean organisation accepts Venezuelan sovereignty over Bird Island", Report in Stabroek News, Guyana, 1st April 2007.

¹⁷ See, www.un.org/Depts/los/LEGISLATIONANDTREATIES/latinamerica.htm

¹⁸ "Chavez visits 'brother' Guyana", BBC News, 19th February 2004, www.news.bbc.co.uk/1/hi/world/americas/3504019.stm

The former Venezuelan Attorney-General promptly attacked President Chavez as a “traitor” for supposedly surrendering Venezuelan territory.¹⁹

In any event, notwithstanding President Chavez’s remarks in Guyana in February 2004, official maps of Venezuela continue to show two-thirds of Guyana as Venezuelan territory.

And, in early March this year, Mr Chavez did not turn up at a Summit meeting of the Rio Group held in Guyana even though the Guyana authorities were led to believe that he would be attending.

An unofficial explanation was floated that the President was “not well”; but as veteran Caribbean journalist Rickey Singh put it: “Chavez seems to have a lot of work to persuade many that he did not intentionally ‘stand up’ Guyana”.²⁰

Meanwhile, the Venezuelan Foreign Minister, who did attend the Rio summit, suggested to the press that the territorial dispute could be addressed bilaterally removing it from the auspices of the UN Secretary-General who has been using facilitators to seek a peaceful solution to the problem. Although this suggestion got a frosty reception from non-governmental bodies in Guyana, it is at least possible that it reflected an earnest intention by the Venezuelan government to continue to improve relations with Guyana.

On the wider scene, there has been no real event since the advent of Petro Caribe and Alba Caribe by which Venezuelan influence on the Caribbean in international or hemispheric matters could be measured.

Venezuela did receive full support from CARICOM countries when it decided late last year to challenge Guatemala for a seat on the UN Security Council as one of the as the Latin American and Caribbean representatives.

¹⁹ “Venezuelan Opposition claims Chavez surrendered Essequibo to Guyana”, Caribbean Net News, 23rd February 2007. www.caribbeannetnews.com/2004/02/23/chavez.htm

²⁰ “No-show Hugo Chavez”, Rickey Singh, Trinidad Express, 7th March 2007.

While this challenge was pitted as a battle between Venezuela and the US because of open campaigning by the US against Venezuela, CARICOM countries would not have supported Guatemala anyway because of its territorial claim to Belize.

In this connection, nothing much turns on CARICOM support for Venezuela on this issue.

So what does all this translate to? Will the Caribbean begin to adopt President Chavez's 21st century Socialism with its aspects of nationalisation of foreign owned companies? And, will they join the Venezuelan President in hostility towards the US government?

The answer is unequivocally: "no".

The relationship between CARICOM countries and the United States remains closely intertwined at several levels and much deeper than the recently established links with Venezuela.

The US is home to the largest number of CARICOM migrants; it has become the country of choice for tertiary education outside the Caribbean itself; between 1997 and 2004, the United States was "the most prominent source of (foreign direct investment) inflows to almost all CARICOM States,"²¹ Americans continues to represent the single largest number of tourists to CARICOM, and, in 2004, CARICOM States as a whole enjoyed a balance of trade surplus with the United States which continued to be its largest trading partner in goods and services – outdoing the European Union.

Further, CARICOM countries have received billions of dollars in remittances from its Diaspora in the US. For example in 2005, Jamaica received \$1.65 billion; Guyana, \$279 million; Trinidad and Tobago \$97 million; Belize, \$81

²¹ Caribbean Trade & Investment Report 2005, Corporate Integration and Cross-Border Development, CARICOM Secretariat, Guyana, 2006, p.138

million. The figure for Jamaica represented an astounding 19% of its Gross Domestic product.²²

In this context, while CARICOM countries may frown at the unilateral actions taken by the current US administration and may look forward to a more attentive US government after the next US Presidential elections, the US market for their goods, for tourism, for private investment and for migration remains extremely valuable and they want to maintain it.

With regard to the adoption of “nationalisation” programmes, this is most unlikely. CARICOM countries are highly reliant on private foreign direct investment for their economic development, and each of them pursues aggressive programmes to welcome foreign investment, not scare it away.

Caribbean countries are also conscious that notwithstanding President Chavez’s statement a few days ago that “there is no possibility of understanding for our revolution with the government of the United states”, as Mr Chavez himself allowed in the same statement, “coexistence is possible”.²³

And, at an economic level, Venezuela and the United States have a mutually dependent relationship. As the Prime Minister of St Vincent & the Grenadines, Ralph Gonsalves, humorously observed recently of Presidents Bush and Chavez: “Men quarrelling, but men trading”.²⁴

The United States continues to be the largest market for Venezuelan oil refining 60% of Venezuelan crude, and Venezuela cannot quickly or easily replace the US refineries. Although President Chavez threatens to cut off oil shipments to the US – and he said so up to last week²⁵ - this is easier said than done.

²² Ibid, p. 71

²³ “Chavez: Détente with US impossible”, Fabiola Sanchez, 14th April 2007, www.phillyburbs.com/pb-dyn/news/88-04142007-1330162.html

²⁴ “Eastern Caribbean organisation accepts Venezuelan sovereignty over Bird Island”, Stabroek News, 1st April 2007.

²⁵ “Chavez detent with US impossible”, Fabiola Sanchez, Associated Press, 14th April 2007

The US itself continues to need Venezuela which is its fourth largest supplier after Canada, Mexico and Saudi Arabia, and this is likely to continue for some time. Certainly, ethanol production from corn or sugar or both is not a short-term answer to US energy needs.

In conclusion, I believe that it is true to say that President Chavez's government has become an influential player in the Caribbean, and much more attention will now be paid to Venezuela than was paid to it previously.

There will also be adjustments in bilateral relations between individual CARICOM governments and Venezuela tailored to peculiar circumstances.

But, CARICOM governments will not follow President Chavez in a leftist lurch, nor will they adopt policies of nationalisation of foreign owned enterprises.

Further, they will not adopt positions in the international community, or alter their bilateral positions to suit the interests of anyone. They will continue to act in their own self-interest as they see it, mindful always, as small states, of the African proverb: "When elephants fight, the grass suffers".