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FEATURED Q&A

Will PetroCaribe Expand Beyond Preferential Oil Purchases?

Q At a PetroCaribe ministerial meeting in Nicaragua in October, officials from the countries involved in the Venezuela-sponsored initiative concluded agreements on more than \$16 billion in new investment, EFE reported. The agenda also sought to expand the scope of PetroCaribe beyond just preferential oil purchases, including possible projects addressing electricity, renewable energy and food security. What is the reasoning behind the expansion into projects beyond the initiative's original scope? How much of a benefit has PetroCaribe been to its signatories? Is PetroCaribe achieving Venezuela's political aims, and will it take on increasing importance over time?

A Anton Edmunds, president and CEO of The Edmunds Group: "Any real expansion of the scope of PetroCaribe into electricity, renewable energy and food security may well be an effort to respond to and counterbalance initiatives such as the Energy and Climate Partnership of the Americas (ECPA), unveiled by U.S. President Obama at the 2009 Summit of the Americas. Interestingly, the resurgence of the Department of State in the energy arena is seen by some as further evidence of the re-emergence of the politics of energy in the hemisphere. Considering the global economic climate, PetroCaribe has served to grant many governments in the region a certain amount of financial flexibility.

While many, including signatories, argue that Venezuela has not yet attempted to convert the PetroCaribe agreement into political gain, the real answer may well be that it has not yet had to. Evidence of Venezuela's political clout through PetroCaribe, it can be argued, may be seen in the fact that signatories may now be finding themselves with no option but to embrace the broadening of the agreement beyond its initial scope. The question to be asked is what other industries and policy areas may be next? The hope is that signa-

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Poverty in Latin America Drops to 20-Year Low: ECLAC

Latin America's poverty level has dropped to a 20-year low, the Economic Commission for Latin America and the Caribbean said Wednesday. However, ECLAC's Alicia Bárcena said the region has large gaps between high- and low-productivity sectors. See story on page 2.

File Photo: ECLAC.

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NEWS BRIEFS

American Jailed in Cuba in Good Spirits: Religious Leader

An American who has been jailed in Cuba for nearly two years is in good spirits, though he has lost a significant amount of weight, a U.S. religious leader leading a delegation to Cuba this week told the Associated Press Wednesday. The Rev. Michael Kinnamon, the general secretary of the National Council of Churches, gave few other details about his meeting with Alan Gross. Gross, who was convicted of espionage, has said he was only working to improve Internet access for Cuba's Jewish community as part of a U.S. Agency for International Development-funded program when he was arrested.

Brazilian Central Bank Cuts Benchmark Rate Half Point

Brazil's central bank on Wednesday signaled it will keep cutting interest rates at its current half-point pace, Bloomberg News reported. The bank's board, led by President Alexandre Tombini, voted unanimously to reduce the benchmark rate 50 basis points for a third straight meeting, to 11 percent.

Brazil's Congress Poised to Overturn Beer Ban in Stadiums

Brazil's Congress has enough votes to reverse a national law that would have prevented the sale of beer in stadiums during the 2014 soccer World Cup, Bloomberg News reported Wednesday. A senior lawmaker sponsoring the special World Cup bill, Vicente Candido, said he expects the proposal to pass both houses of the legislature early next year. **Anheuser-Busch InBev**, the world's largest brewer and a major World Cup sponsor, had been pushing for the change to Brazil's law against alcohol sales in stadiums.

Economic News

Poverty in Latin America at Lowest Level in 20 Years: ECLAC

Latin America's poverty rate has sunk to its lowest level in 20 years, the Economic Commission for Latin America and the Caribbean said in a report released Wednesday, BBC News reported. Poverty in the region declined from 48.4 percent in 1990 to 31.4 percent in 2010, meaning that 177 million people live in poverty today, according to ECLAC. Household incomes have increased in the region in the past two decades, but the region remains beset by large gaps between high-

Extreme poverty in the region declined to 12.3 percent from 22.6 percent, said ECLAC.

er-paid economic sectors and lower-paid, less-productive ones, it added. "Poverty and inequality continue to decline in the region, which is good news, particularly in the midst of an international economic crisis," said Alicia Bárcena, the executive secretary of the United Nations body. "However, this progress is threatened by the yawning gaps in the productive structure in the region and by the labor markets which generate employment in low-productivity sectors." ECLAC's report, "Social Panorama of Latin America 2011," added that the region's level of indigence, or extreme poverty, also dropped to 12.3 percent in 2010 from 22.6 percent in 1990. ECLAC added that rising food prices are likely to push the rate of extreme poverty to 12.8 percent by the end of this year, but noted the total number of people living in poverty in the region is expected to decline from last year's total to 174 million. In the past 20 years, Peru, Ecuador, Argentina, Uruguay and Colombia experienced the largest declines in poverty, while the poverty rate increased only in Honduras and Mexico. ECLAC praised governments' increased social spending, but added more needs to

be done to make income distribution more balanced. The report said that the region also faces high unemployment rates and HIV rates among youth. The report said that only sub-Saharan Africa's HIV rate surpasses that of Latin America, where approximately 1 percent of the total population is infected with the virus that causes AIDS.

Political News

Jamaica's Ruling Party Chairman Quits Cabinet Post Amid Allegations

Jamaica's governing party chairman has resigned his cabinet post amid allegations that his department mismanaged a Chinese-financed road program, the Associated Press reported Wednesday. Mike Henry, the government's transportation and works minister, announced late Tuesday that he was stepping down. Henry, who denied wrongdoing, cited "ongoing attacks" on the management of the Jamaica Development Infrastructure Program as the reason for his departure from the cabinet. The \$400 million, five-year initiative was started in 2010 and uses loans from China to improve roads. Prime Minister Andrew Holness has assumed the project's responsibility, and Henry has said he looks forward to a review of the program, which Holness has ordered. Henry is remaining chairman of Holness' Jamaica Labor Party. However, Henry



the government's deputy chairman, Robert Mantague, the Caribbean nation's agriculture minister, is challenging Henry for the post. Last month, Patrick Wong, chief executive officer of Jamaica's National Works Agency, which Henry's ministry oversees, quit after a report by the country's auditor general raised concerns about the road project. Among those concerns was the \$1.2 million that was apparently used for improvements including decorative tiles and new air conditioning units for the

File Photo: Jamaican government.

agency's headquarters. The money was spent on the upgrades without the approval of Jamaica's contracts commission, the report said. Also, the island's contractor general opened an investigation Tuesday into what it said were "glaring irregularities" by the National Works Agency in connection with the purchase of \$720,000 worth of furniture using money from a project earmarked for road repairs. Late Wednesday, Holness named cabinet member Shahine Robinson to succeed Henry. Last year, Robinson fought to hold her seat in parliament after revealing that she had U.S. citizenship, which violates Jamaica's constitutional law.

Company News

Workers at Chile's Collahuasi Copper Mine End Strike

A strike at the Collahuasi copper mine in northern Chile has ended as workers agreed to return to work after winning concessions over job dismissals, Bloomberg News reported Wednesday. "Early this morning, the workers carrying out an illegal strike inside the mine

Workers ended the strike after winning concessions over job cuts.

stopped their action," the mine, a joint venture of **Anglo American** and **Xtrata**, said in a statement. "The 30 dismissals announced yesterday will be maintained and we will review the situation of the 32 dismissals" which had been scheduled to be announced Wednesday. Collahuasi workers agreed to end the strike, which they had called on Monday, after winning a reduction in job dismissals at the mine, a union official told Bloomberg News. Previously, the union had said 62 workers were set to be cut. On Tuesday, company officials said only about 10 percent of the mine's workforce had gone on strike to protest the dismissals.

Featured Q&A

Continued from page 1

tories will not allow this 'scope creep' to distract them from addressing current issues such as monopolistic arrangements that exist in power generation, weak policies that discourage investment in alternative energy, lack of effective land use policy and the absence of standards that allows substandard technology into the market. While Venezuela has had success in areas such as alternative energy, signatories must resist dependency on a PetroCaribe arrangement that may end up allowing for the replacement of existing monopolies with others and worse, serve to further close their markets to the interested investing community."

A **Horacio Medina, vice president of Entorno Energético and former operational agreements general manager at PDVSA:** "In the first place, I think it is necessary to express that PetroCaribe cannot be considered a commercial enterprise. Its connotation is eminently political and commits the signatories to express automatic solidarity with Venezuelan proposals and positions within the Organization of American States and in reference to the Latin American and the Caribbean political concert. On the other hand, we should not have any doubt that these countries have benefited from this initiative, perhaps not to the extent that it purports to show, but they receive benefits from providing products that result in savings of foreign exchange. These benefits have helped to stabilize the Caribbean and Central America, which also leads to benefits for the United States from a geopolitical and economic standpoint. Finally, it is well known that the countries that have shown political commitment to the Venezuelan government have received greater benefits. This includes Nicaragua, Honduras (under Zelaya) and Cuba, in contrast with countries like Costa Rica and Honduras (under Lobo). Financing projects to build new refining capacity without any

kind of economic or commercial benefit for Venezuela represent a reward for the loyalty and unconditional support they have given to Venezuela's government. New investments look very ambitious but unlikely, except the Matanzas refinery, which has already started with a loan from China guaranteed with oil from Venezuela. To conclude, for its members, PetroCaribe means great economic benefit and a loss of political independence. For the sponsor, it means a big economic loss, but political gain and a better international image."

A **Asdrúbal Oliveros, director of Ecoanalítica in Caracas:** "According to PDVSA, the point of PetroCaribe is to help level the playing field in terms of countries' access to energy resources by creating an exchange scheme that is 'favorable, equal and just' for all the countries participating, with PDVSA being its main and only supplier. Then, when the volume of crude oil and byproducts going to these member countries began to increase, the company line was that PDVSA was engaged in a strategy to diversify the markets it supplies. At Ecoanalítica, we have calculated the approximate value of Venezuelan oil exports to PetroCaribe member countries and thereby calculate the portion that has been financed according to the regulations established in the agreement pertaining to financing. First we used export volumes reported by PDVSA (170 kb/d on average) in its audited balance statements and the average price of the Venezuelan oil basket in order to obtain a bill for oil/byproducts received by each member in PetroCaribe. In the period between 2006 and 2010, total exports to PetroCaribe members reached around \$19.4 billion. PDVSA's accounts receivable balance from these member countries at the close of 2010 reached \$7.6 billion, which is up by \$1.26 billion (23.3 percent) compared to the close of 2009. This amount represents more than 45 percent of all accounts receivable, and

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exports to these member countries does not surpass 8 percent of total Venezuelan exports. These results seem to indicate that, with respect to PetroCaribe, these agreements are not PDVSA's best option when it comes to 'diversifying its markets.' As we have stated a number of times, exchanging a client that pays its

the inception of PetroCaribe, Venezuela has begun to emerge as the most important single country partner for development for its members and seems central to the region's short- and medium-term economic survival and stability. PetroCaribe has helped to cushion the shock of the financial crisis on its mem-

“Since the inception of PetroCaribe, Venezuela has begun to emerge as the most important single country partner for development for its members.”

— *Anthony T. Bryan*

bills in a timely manner (the United States and Europe) for one that may be your friend and have the best intentions, but with almost no possibility of making payment, even with the beneficial agreement you are giving them, is just adding dead weight to PDVSA. In these hard production times, this becomes very costly for the company. But, as we have seen before, it seems that in the Chávez administration, political gain is more important than economic gain."

A **Anthony T. Bryan, senior associate in the Center for Strategic and International Studies and a senior fellow at the University of the West Indies in Trinidad and Tobago:** "The plans and projects announced at the PetroCaribe ministerial meeting in Nicaragua last month are ambitious. The most notable are those to build new oil refineries in Cuba and in Nicaragua. One refinery, named El Supremo Sueño de Bolívar, is to be built on Nicaragua's Pacific coast with a capacity of some 150,000 barrels per day. PetroCaribe provides subsidized Venezuelan oil to its 18 member states through Central America and the Caribbean. It has also supported an important increase in electricity generation capacity in member countries. Since

bers; but the program has also become one of the greatest debt accumulators for the already debt-overburdened countries of the region. The sustainability of PetroCaribe depends on several factors. First, some specialists estimate that Venezuela won't be able to maintain the program if oil prices go lower than \$75 a barrel. Second, pronouncements on grandiose projects are a constant feature of PetroCaribe summits. The projects represent a viable option for obtaining new cooperation resources, but the past reveals that such projects do not always get off the ground. Venezuelan finances for the recently announced schemes could well be stretched between now and anticipated elections in October 2012. Third, the PetroCaribe model of regional energy cooperation is based on the primacy of Venezuelan oil, current largesse and the current use of ideology as a strategy for regional cooperation. It is not a model for the future since neither continued Venezuelan largesse, nor PetroCaribe (beyond Chávez), can be guaranteed."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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