

**Oil and gas in Latin America. An analysis of  
politics and international relations from the  
perspective of Venezuelan policy**

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## **Oil and gas in Latin America. An analysis of politics and international relations from the perspective of Venezuelan policy**

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**Summary:** Oil and gas play an important role in relations between the United States and Venezuela, but also in relations between and among Mexico, Cuba, Venezuela, Colombia, Brazil, Peru, Ecuador, Argentina, Bolivia and Chile, to name only some of the key countries. The discovery of new gas and oil reserves, and the exhaustion of others, is causing changes in the relative importance of countries and in the relationships among them. In some cases, this factor seems to have a greater impact than do changes in a country's military power or diplomatic strategy, or even the stability of its government.

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### **Introduction**

Energy has become an issue of great concern around the world. As much or more than the great pandemics such as AIDS and avian flu, ecological threats such as the devastation of the rain forests and global warming, or issues of human migration, it is the world's energy supply that has now become the main concern of the media, academic circles, governments, multilateral agencies and business.

Since the end of the Cold War, scenarios are coming to the forefront in which possible confrontations arise not from ideological differences, but over the supply of gas and oil, and the security of the channels for transporting them. This situation has focused renewed interest on potential hotspots such as the Persian Gulf, the Caspian Sea, Nigeria, Angola, Sudan, northern Siberia, the South China Sea, Indonesia and Venezuela.

Partly as a result of this, the focus on energy issues has shifted: technical and market studies (reserves, prospecting, operations) are now rapidly being accompanied by political analyses, making expressions such as 'oil politics' and 'oil diplomacy' increasingly common in the news media. In turn, decisions on projects and initiatives –while largely based on very important technical and economic feasibility studies– must sometimes give

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priority to strategic considerations, including the balance of power among the countries involved. In the Americas, oil and gas play an important role in relations between the United States and Venezuela, but also in relations between and among Mexico, Cuba, Venezuela, Colombia, Brazil, Peru, Ecuador, Argentina, Bolivia and Chile, to name only some of the key countries. The discovery of new gas and oil reserves, and the exhaustion of others, is causing changes in the relative importance of countries and in the relationships among them. In some cases, this factor seems to have a greater impact than do changes in a country's military power or diplomatic strategy, or even the stability of its government.

This study analyses the influence of oil and gas on relations among Latin American countries. Given the active role played by Venezuelan President Hugo Chávez on this issue, we will deal with it from the perspective of Venezuelan policy and the possibility that oil could be used as a significant instrument of power in the area, changing regional balances. This study is based mainly on considerations of politics, geopolitics and international relations.

The term 'oil politics' can describe two types of situations: one is the result of applying force and hegemony to control this energy resource; the other is the sometimes open and arbitrary use of oil wealth to influence events in other countries. These are different realities, but they must be considered together since, though easy to distinguish theoretically, they complement and reinforce each other in real political life.

The first type of situation occurs when oil or gas in themselves create relationships of dominance and subordination between states; for example, when nations that lack these resources develop a dependence on others that are rich in them. This is augmented when subsidised pricing or privileged financing conditions are added. To define these situations more precisely, we must consider which countries in the region are big oil producers and which have little or no oil or gas, making them net importers.

In these relationships among exporters and importers, we must also consider that there is less likelihood of creating dependency if oil and gas is treated as a commodity passing through relatively well-defined markets, with a variety of players offering and demanding the resources at prices set in the public view. The lightest types of crude are, in fact, a commodity demanded by many countries, with prices that are set on the open market. By contrast, super-heavy crude oils are difficult and costly to produce and require complex refineries, which are limited in number. This means that these types of crude oil are transported in restricted markets at prices that are not set automatically. Natural gas, however, is not a commodity, since its market is limited to countries with a certain geographical proximity and which are connected by pipelines. Also, natural gas prices are set by agreements between states or companies. Liquefied natural gas (LNG), by contrast, reaches wider markets, although it is limited to nations that have deliquefaction plants. Also, LNG prices are more competitive, since they can be tendered.

The second type of situation occurs when oil producing countries with enormous riches decide to use part of these resources to gain influence and power over other states by acting directly either on their governments or on opposition groups or movements. These activities are also considered part of so-called 'oil politics', but it would be more appropriate to say that they are simply an exercise of the power of wealth; it is not significant that oil, rather than diamonds or a powerful manufacturing industry, is the source of the wealth. A government can use huge sums of money to intervene, either directly or through hidden channels, in the politics of other states, and can even try to destabilise other governments –the source of the funds makes no difference–.

The description of this situation would not be complete without a warning regarding the other side of the coin: even though oil prosperity may provide producing countries with the resources to influence the internal affairs of other countries, this same wealth makes more powerful nations interested in controlling these resources by intervening in the producers' political systems. Oil producing nations are always under the attentive eye of the great powers and sometimes are directly pressured by them. This situation is facilitated by the fact that most of the world's oil reserves are located in underdeveloped nations that often suffer from corruption, social divisions, civil wars, political instability or harshly dictatorial governments.

This analysis will focus on the first of the situations we have alluded to; however, we will make reference to relations of the second kind, taking care in each case to specify the different types of bonds created.

Since this work is limited to the analysis of oil and gas policy in Latin America, only passing mention will be made of relations between Venezuela and the United States –an issue of great importance and one that merits detailed study–.

Finally, the opportunities for international oil politics are greater as crude prices rise. Let us suppose that they continue high for a long time, because 'this time prices do not reflect a geopolitical disruption, but rather the continued success of globalization (to be more specific, the burgeoning of China and India) and a world economy that is running very well' (to quote Daniel Yergin). The upward pressures on prices are strengthened by factors such as political instability in Saudi Arabia, Iraq and Nigeria, and the conflict over nuclear energy between the United Nations and Iran –issues not easy to resolve, at least in the short term–. Furthermore, prices are pushed still higher by the lack of refining capacity in the world, especially to process heavy and more acidic crude oils, which in the future will represent a larger part of the overall hydrocarbon supply.

## **I. Dependence on Oil and Gas in Latin American Countries**

The opportunities to use oil as an instrument of power in relations with other nations in a region increase if the supply is highly concentrated with one or only a few main suppliers, while the rest of the countries produce little or no oil, making them dependent on foreign suppliers.

Latin America does not lend itself to this kind of scenario for several reasons. First, because with the exception of Central America and the Caribbean, it is a region rich in energy. Latin America has 10% of the world's conventional oil reserves, compared with 2.5% in North America (excluding Mexico), 9.3% in Africa, 8% in Eastern Europe, 4% in Asia and 1.6% in Western Europe. The gas situation is not as good, since the region has only 4% of proved world reserves; however, its consumption levels are also below this level.

Secondly, the supply and demand of crude oil and gas in the region varies greatly from country to country. Though Venezuela's huge resources eclipse the others, Mexico, Colombia, Ecuador and Trinidad & Tobago are also oil exporters, while Argentina and Bolivia produce enough to cover the needs of their domestic markets. Peru and Brazil are in a slightly different situation, since they are on the road to self-sufficiency, which is tending to change the energy map of the region. Thus, the list of net oil importers includes Chile, Paraguay and Uruguay in South America, plus all the countries in Central America and the Caribbean with the exception of Trinidad & Tobago. Cuba and Guatemala produce oil, but in quantities that do not cover their domestic demands.

### *Oil Exporting Countries*

In addition to Venezuela –the strengths and weaknesses of whose industry will be the subject of our next analysis– Mexico, Trinidad & Tobago, Colombia and Ecuador can be considered oil exporting countries.

**Ecuador** has 0.4% of the world's crude reserves. Oil has an enormous significance in its economy. According to ECLAC, it represents more than a third of the country's exports, averaging 36.4% between 1993 and 2003. With the exception of Venezuela, there is no other economy in the region where oil is such a large part of the exporting base.

PetroEcuador, a state-owned corporation, is the biggest company in the country. It has been criticised for its low operational efficiency and its production has been declining over the past ten years.

**Colombia** is a net exporter of energy resources and it exports significant amounts of oil. Its abundant gas reserves will be enough to supply western Venezuela for seven years. Colombia has huge reserves of high quality coal and abundant hydro resources which, together with gas, will enable it to be an important player in energy integration programmes, especially in Central America and Mexico.

However, the Colombian oil industry is showing worrying signs of decline. Its production, which in 1999 came to 820,000 barrels a day, dropped sharply in the following years to levels in the order of 520,000 bpd between 2003 and 2005. These figures have led to the idea that the country will no longer be a net oil exporter by around 2010. The issue is of great importance, since between 1993 and 2003 Colombian crude oil accounted for 25.6% of the country's total exports.

**Mexico**, along with Venezuela, has the bulk of available reserves in Latin America. Mexico accounts for 1.4% of world reserves and it exploits the resource intensely, producing 5% of world supply, despite the size of its reserves. Venezuela, by contrast, supplies only 3.9% of world production, while holding 6.8% of reserves. Since Mexico has high domestic consumption, it exports only a little more than half as much as Venezuela, equivalent to 9.5% of its total exports from 1993 to 2003.

### *Countries Self-sufficient in Oil*

Argentina and, with certain limitations, Bolivia, are self-sufficient in oil. Starting this year, Brazil will be too. Its situation will be considered among our analyses of oil importing countries.

**Argentina** has 0.3% of the world's crude oil reserves. Strictly speaking, the country has been a net exporter of oil to date. From 1993 to 2003 Argentine crude oil exports accounted for 11.5% of the country's total exports. However, oil production in Argentina is not growing to meet domestic demand, meaning that oil's contribution to the trade balance will continue to decline.

In the gas sector, in the mid-1990s Argentina was considered a country with a large surplus of exportable gas. A decade later it is considered close to being a net importer of gas. However, this will be true only if investment in exploration remains frozen, since the country is believed to have significant reserves of undiscovered gas and perhaps even discovered but undeclared reserves.

**Bolivia** produced oil and gas in 2005 equivalent to its consumption. It produces quantities of oil that do not entirely cover its needs, forcing it to import oil in amounts that are not significant. Between 1993 and 2003, Bolivian oil exports accounted for 3.9% of the country's total exports and 4.8% of its imports.

However, since 1998 Bolivia's gas reserves have multiplied tenfold, making it a key actor in the gas market. It seems destined to become the main supplier to Argentina, southern Brazil and Chile, if politics do not prevent this.

#### *Oil Importing Countries*

In South America, Peru, Brazil, Chile, Paraguay and Uruguay are oil importing countries. All Central American and Caribbean countries are net importers, with the sole exception of Trinidad & Tobago.

**Brazil** has 0.9% of the world's crude oil reserves. It is the biggest oil importer in the region, but its reserves cover only a quarter of its consumption; the other three quarters are produced domestically. Brazil covers two thirds of its natural gas consumption and imports the rest from Bolivia. Brazil has South America's largest proved reserves of coal, nearly double those of Colombia, which are the next largest. Brazil is also the world leader in ethanol production. Together with the United States, the two countries produce 70% of the world supply of this fuel.

However, what is interesting about Brazil is not its relative energy deficit (which between 1993 and 2003 led it to import 58% of all the oil entering South America) but the aggressive policy it has followed to develop Petrobras. Brazil has significantly increased its investment and increased its production not only of oil and gas, but also of ethanol and coal, with results that are changing energy geopolitics in the region. We will consider these issues later, in the context of Southern Cone politics.

**Chile.** Chile unquestionably suffers from an energy deficit, as it produces no more than 5% of the oil it consumes and covers no more than 20% of its natural gas needs.

Between 1993 and 2003, exports of Chilean crude oil and derivatives represented 0.7% of the country's total exports, while imports of crude oil and derived fuels accounted for 10.3% of imports in the same period. Also between 1993 and 2003, Chile was responsible for 25% of all oil imports in South America –a huge amount considering the size of its economy–.

Reacting to the seriousness of its oil and gas deficit, Chile is now developing an interesting energy diversification policy, which we will discuss later.

**Peru.** In 2005, Peru produced 78% of the oil it consumed and imported the other 22%.

Between 1993 and 2003, Peruvian crude oil exports represented 5.8% of the country's total exports, while imports of crude oil and derived fuels accounted for 10% of imports in the same period.

However, the energy situation in Peru has improved considerably since the discovery, in 1984, of the Camisea natural gas fields, where production began last year. The country's proved natural gas reserves are 4.7 times larger than its crude oil reserves.

**Paraguay** does not produce oil. Between 1993 and 2003, Paraguayan crude oil exports represented 0.2% of the country's total exports, while imports of crude oil and derived fuels accounted for 9.5% of imports in the same period.

However, if we consider hydroelectric production, Paraguay is energy independent (despite certain unavoidable oil requirements), since it consumes much less energy than the available hydroelectric capacity of Itaipú (Brazil-Paraguay agreement) and Yacyretá (Argentina-Paraguay agreement).

**Uruguay** does not produce oil. Between 1993 and 2003, Uruguayan crude oil exports represented 0.72% of the country's total exports, while imports of crude oil and derived fuels accounted for 10.45% of imports in the same period.

In terms of energy, Uruguay is the most vulnerable country in South America.

**Central America and the Caribbean.** The situation in this region is very different to that in South America. If we exclude Mexico, Venezuela and Colombia, which form part of the Caribbean basin and are oil exporters, as we have discussed, the only oil exporting country is Trinidad & Tobago. None of the others have oil reserves, except Cuba and Guatemala, which nonetheless are both net oil importers.

## **II. Strengths and Weaknesses of Venezuelan Oil**

Oil diplomacy has been a constant feature of Venezuelan policy since the country joined OPEC in the early 1960s. In this regard, the existence of a 'petropolicy' in this Caribbean nation is nothing new. But this is only half true, since the Chávez government has used oil to support rhetoric and as a foreign policy instrument to an extent unprecedented in Venezuelan history. It would be difficult to find another example in Latin America of a raw material being brandished so openly in the international political arena.

President Chávez's capacity to use oil as an instrument in international relations depends on the quantity and quality of Venezuela's oil reserves, on the country maintaining a significant role as a producer and exporter of crude oil, and on the solidity of the industry, which will have to continue to expand in a context of high efficiency, high investment and high prices. If these circumstances are not present, this capacity will be diminished.

It is important to point out that analysing the Venezuelan oil industry is becoming increasingly difficult due to the lack of reliable data. This year, the Venezuelan state-owned petroleum company, PDVSA, announced that it will no longer provide annual reports to the US Securities and Exchange Commission (SEC). In turn, Moody's withdrew its ratings of PDVSA debt, claiming it had no 'indication that PDVSA intends to provide audited financial statements either publicly or privately'.

### *The Huge Size of the Reserves*

If we consider conventional crudes, Venezuela has 6.8% of the world's proved reserves, that is, 80 billion barrels, making it the sixth-richest oil nation after Saudi Arabia, Iran, Iraq, Kuwait and Abu Dhabi. If we add super-heavy crudes, this figure rises to 270 billion barrels, giving this South American country the world's biggest oil reserve –even bigger than Saudi Arabia's–. The question is: which figure stands up best to study and comparison? The answer today is that conventional crude reserves matter more, but as technologies advance, other reserves will become important. Extracting heavy crudes is difficult, requires bigger investments over longer periods, is less profitable and, above all, requires special refineries at the extraction sites (to raise the API gravity of the crudes to make them lighter) and, generally, in the importing countries as well. Super-heavy Venezuelan crude (8° API) cannot be treated at a conventional refinery, which means it is not a commodity, with political implications that we will consider later.

### *Stagnant Production*

Although Venezuela clearly has huge reserves, it is also clear that the country is unable to increase its crude supply. The Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL) indicates that Venezuela's GDP grew by 17.9% in 2004. This figure essentially represents a recovery from the sharp drop in 2002 and 2003. Preliminary figures for 2005 indicate a further 9.3% rise. However, as these studies show, 'the expected GDP increase is not in oil production, which has not been able to return to

the production levels maintained before the general strike, due to low investment in the state-owned oil company. These conditions have led the country to produce even below the ceiling agreed to by OPEC. The dynamism of the oil sector will depend solely on an increase in international prices, since (...) there is limited capacity to raise production levels.'

It is not easy to determine how much production has fallen, given the lack of data from PDVSA. While the state-owned company claims to have recovered to 2000-01 production levels –that is, to about 3.1 million barrels a day– independent studies show that no than 2.7 million barrels a day were produced in 2005.

#### *Under-investment in Oil*

The Venezuelan oil industry requires large annual investments, especially in exploration and production, in order to at least maintain its current production levels. All indications are that PDVSA is far from reaching the minimum investment levels necessary to do this. PDVSA's plan for 2005-10 is based on an annual investment of US\$6.3 billion by the state and an additional US\$2.5 billion in private investment. Despite the official figures, estimates for 2005 indicate that only about half of the first figure will be reached; that is, no more than US\$3.5 billion. Actual private investment is also estimated to be far from the stated goal, due to the climate of uncertainty surrounding government policy towards property and foreign investment. Based on the estimated investment levels, it can be assumed that Venezuelan crude production will continue to fall or, at best, will not increase.

PDVSA's investment levels compare unfavourably with those of other state-owned oil companies in the region. For example, it is estimated that in 2003 PEMEX invested twice as much as its Venezuelan counterpart, while Petrobras invested 150% more. Furthermore, recent announcements by the Brazilian state-owned oil company refer to investments of US\$12 billion between this year and 2010, which is three times PDVSA's current level.

#### *PDVSA's Declining Quality and Managerial Capacity*

Most of the PDVSA technocracy sided with the opposition to Chávez during the lock-out (*paro patronal*) in 2002. When the lock-out failed, a very significant group of high-level technical workers were fired, leading to a loss of management from which the company has not yet recovered. At the same time, Chávez took political control of the company, creating close links to the President's office and allocating part of its resources to finance the government's social initiatives (its so-called 'missions'). This detouring of funds to social programmes is one of the reasons for the company's inability to reach the necessary investment levels. In November 2004, the job of Energy and Oil Minister and PDVSA Chairman were rolled into one –another step towards presidential control of the company–.

PDVSA's lack of high-level management capacity has become more critical as the government has become involved in a great number of new operations. The decision to turn 32 operating agreements with foreign companies into 32 joint-venture companies with PDVSA holding a majority stake (60% of shares) has forced the state-owned company to take charge of the administration, financing, operational and technical issues of 32 different companies. And its already overburdened managerial capacity is further strained by other responsibilities such as advising YPF Bolivianos, delivering subsidised oil to municipalities under the control of the Sandinistas in Nicaragua and the FMLN in El Salvador, and preparing the study for the Southern Gas Pipeline.

### *Little Development of Natural Gas*

Venezuela has the largest natural gas reserves in Latin America. However, until very recently it had no interest in developing them. It is estimated that despite having reserves of 4.2 trillion cubic metres, no more than 40 billion cubic metres of gas has been extracted. Also, a significant part of the gas extracted is linked to oil, making it useful only for crude operations. There is no doubt Venezuela will eventually be a major gas exporter, but today only limited amounts are available. The best proof of this is the agreement with Colombia to build the Transguajiro gas pipeline, which will run from La Guajira to Maracaibo. During its first seven years of operation it will transport Colombian natural gas to consumers in Venezuela. Venezuela has only begun to develop its gas pipeline system, which has kept commercial and residential consumption very low; in fact, as oil-rich an area as Zulia does not have a residential gas system. Only in the late 1990s did Venezuela establish a legal framework for the industry –the Gaseous Hydrocarbons Act (*Ley de Hidrocarburos Gaseosos*)– and in 2000 it created ENAGAS, the national gas corporation.

### *Heavy Crudes*

Venezuela produces light, heavy and super-heavy crude oils. Light crude is defined as having more than 30° API; heavy crude has at least 30° API; and the super-heavy variety has at least 16° API. On the market, the most sought-after crudes are the lightest ones, such as Brent (45° API) and WTI (47° API). Those under 16 degrees have limited markets because they require special refineries where they are extracted and, generally, also at their places of destination. Super-heavy crudes are difficult and costly to transport by gas pipeline because of their high viscosity, so that the first treatment they receive must be to turn them into heavy crudes while still near the wellhead. Only then can they be exported to specialised refineries. In general, there are few refineries with the infrastructure to refine this type of crudes.

In terms of the issues discussed here, heavy crudes can be considered to be of limited use as an instrument of power. With light crudes, an exporting country could cut off the supply to an importer, confident that its product could be placed in other markets. But this is not the case with super-heavy crudes if the importing country has some of the few specialised refineries for treating these fuels: if the exporter were to cut off the supply, it would not be able to place the product in another market and would be causing itself as much or more damage than it set out to cause its adversary. This largely describes the relationship between Venezuela and the United States. Venezuela exports heavy crudes to the US, since the latter has a large number of refineries capable of processing oil of this kind. This makes it very difficult for Venezuela to use this kind of supply as an instrument of pressure. It could even be argued that the balance of power in this regard tilts in favour of the US, since its capacity to refine heavy, highly acidic crudes is a scarcer commodity than the availability of the fuel itself.

In the same sense, it could be argued that PDVSA's search for joint ventures with public or private oil companies in other countries –on projects that involve both the extraction of super-heavy crudes in Venezuela and, at the same time, the creation of refining capacity for these fuels in their countries of destination– should be seen as situations in which a conflict would not generally be a negative sum proposition (one in which the exporter wins and the importer loses), but rather a positive sum situation since both parties win if trade continues and both lose if it is interrupted.

In summary, Chávez's 'oil diplomacy' takes place in a specific context and under many adverse conditions. This is clear in the stagnant production levels, underinvestment, incapacity to attract significant levels of private investment, the politicisation and poor management of PDVSA, and the presence of super-heavy crudes. Under these conditions, oil diplomacy depends on oil prices remaining high and is possible only as

long as this situation continues. A significant fall in prices could not be offset, at least in the medium term, by increases in crude production, nor by economic dynamism of other kinds, since the Chávez regime has not been able to use the current favourable price situation to finance self-sustaining development in other sectors of the economy.

### **III. Oil Politics in Central America and the Caribbean**

Of all the places in Latin America, this is the region where oil and gas may be most significant as a political instrument. The reason for this is obvious: it is a region with a few big oil producers and more than twenty countries that are net importers of crude oil and gas who totally lack these resources. Two world-class producers –Venezuela and Mexico– are accompanied by two others –Trinidad & Tobago and Colombia– which, though not in the same class as the first two, are big producers at the regional level. The other 22 countries are: Haiti, the Dominican Republic, Cuba, the six Central American nations –Guatemala, Nicaragua, El Salvador, Honduras, Costa Rica and Panama– and 13 of the fourteen members of CARICOM. Only two –Guatemala and Cuba– produce small amounts of oil, but not enough to satisfy domestic demand.

In this region, dependence on oil and gas is greater than in any other part of the hemisphere and, as a result, there are also the greatest opportunities for ‘oil diplomacy’.

Central America and the Caribbean is also a region where several greater and lesser powers have historically attempted to exercise their influence. This is obviously true of the United States, but also of Mexico, Venezuela and Cuba, particularly under Castro. Brazil has also been taking greater interest in the region, to the point that Lula has already made two official visits to the Caribbean. The area is important for many reasons: its population, its market, its geopolitically significant proximity to the United States, its voting power in the Inter-American System (the CARICOM countries have 14 votes in the General Assembly of the OAS, while South American nations have only ten). As a result, any assessment of the political actions of certain countries in the region must take into consideration the set of actions and reactions that they elicit from other major and minor regional powers.

In this context, oil and gas policy (and politics) in the region are guided by the following agreements and issues.

#### *The San Jose Agreement*

For at least a quarter of a century, Central American and Caribbean countries have been seeking international cooperation to face the difficulties caused by their lack of oil –a situation that has only worsened with higher prices–.

In August 1980 this task was taken on in collaboration with the governments of Venezuela and Mexico via the San Jose Agreement, under which each country agreed to supply 80,000 barrels/day of crude or refined products to 11 countries in the area (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Haiti, the Dominican Republic, Barbados and Jamaica) at international market prices, but with the help of credit lines that covered between 20% and 25% of the total cost of the fuel. This agreement has been renewed annually until now, although Chávez questions it, since it does not cover Cuba.

#### *The Caracas Agreement*

Venezuela’s criticism of the San Jose Agreement led it to create the complementary Caracas Agreement in October 2000. It was signed by Venezuela and ten countries in the region (all those in the previous agreement, except Jamaica) and promises a daily supply of 80,000 barrels of oil at international prices, but with a payment period of up to 17 years

and an annual interest rate of 2%. The largest part goes to the Dominican Republic (20,000 barrels/day), while the smallest quota is for Barbados and Belize, with 1,600 and 600 barrels each.

#### *PetroCaribe*

Five years later, in June 2005, Venezuela took a further step by creating PetroCaribe, which includes Caribbean nations not covered by the agreements mentioned above: Antigua and Barbuda, Bahamas, Cuba, Grenada, Guyana, Saint Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Surinam, as well as Belize, Jamaica and the Dominican Republic, which were already covered.

Crude is sold to these countries at unsubsidised market prices. It is interesting that they are given long-term financing linked to the rise and fall of international prices, so that as the barrel price rises, financing options are given for a larger part of the oil bill: up to 30% when the price is over US\$40/barrel; up to 40% if the barrel costs over US\$50; and up to 50% if it hits US\$100. If the price of crude stays below US\$40, the payment period and interest are the same as under the Caracas Agreement, but if it goes over, the payment period is extended to 25 years. Oil sold this way can only be used for domestic consumption in each country and cannot be re-exported.

This agreement has at least two distinguishing features: first, it creates a permanent organisation with a headquarters in Caracas, a ministerial council and an executive secretariat that corresponds to Venezuela. Secondly, it creates the ALBA-Caribbean fund to finance economic and social development programmes with an initial contribution of US\$50 million by Venezuela. The Chávez government also wanted to link the PetroCaribe agreement with the ALBA (as an alternative to the FTAA), but the result of this is uncertain since the proposal has not been accepted. In fact, at the Fourth Summit of the Association of Caribbean States (ACS), held in July last year, all reference to the ALBA was suppressed, despite Venezuelan diplomatic pressure.

These agreements between Venezuela and Central American and Caribbean countries are unquestionably beneficial to the nations in the region. But while recognising Venezuela's efforts to help alleviate the situation of Caribbean countries struggling to deal with the cost of buying oil, it is still valid to voice concerns regarding the degree of dependence that this aid might create and the willingness of the supplier to use it as an instrument of pressure. In fact, there are contradictory signals: in elections for the presidency of the Inter-American Bank, countries receiving PetroCaribe aid voted in favour of the Colombian candidate, whom Chávez strongly opposed; a starkly contrasting example –though before PetroCaribe– was Chávez's decision to cut off oil exports to the Dominican Republic in 2004.

#### *The Venezuela-Cuba Agreement*

The Venezuela-Cuba Agreement is the most intimate international action plan between any two countries in the hemisphere. Politically, it is based on a rejection of US policy and 'anti-imperialist', 'anti-globalisation' and 'anti-neoliberal' rhetoric. As for the social model proposed, at least to date there is a difference between Chávez's vague '21<sup>st</sup> century socialism' and Castro's 'real socialism'.

The tangible basis of this agreement is oil. The lack of transparency that characterises both the Castro and Chávez regimes makes it difficult to specify the terms of the agreement between the nations; however, various published authors (among others, Erickson, Corrales, Falcoff and Schifter) indicate the following: Venezuela sends Cuba 90,000 barrels a day at a price estimated to be two-thirds its market value. Cuba consumes 120,000 bpd –two-thirds of which it produces internally–. Therefore, of the 90,000 barrels that Venezuela supplies, 40,000 are used for domestic consumption and

50,000 are re-exported to world markets. As a result, Cuba not only benefits from using a subsidised raw material for domestic consumption, but also is able to re-export part of it. This form of aid is similar to the kind provided by the USSR in the 1980s and 90s, when subsidised Soviet oil supplies allowed Castro to sell up to 60,000 bpd on the spot market and to pocket the difference.

In exchange for oil aid, Venezuela receives between 30,000 and 50,000 Cuban professionals, especially in the area of medicine, education and sports, who have been essential in enabling the Chávez government to carry out its assistance programmes ('missions') in literacy training, medical centres for poor neighbourhoods, sports and the identity card programme. It is very likely, but not publicly admitted, that some of the Cubans also provide advisory services to strengthen the intelligence and security forces, and to reform the military structure. The magnitude of this exchange is reflected in ECLAC reports which –based on figures provided by the Cuban government– show an 11.8% increase in GDP in 2005, boosted largely by 'the sale of professional services to the Bolivarian Republic of Venezuela'.

Venezuela's support of Cuba is no less strong, but it is difficult to calculate precisely, both because the terms of the agreements on which it is based have not been made public, and because its value depends on the fluctuating price of oil. Nevertheless, it is reasonable to estimate that under this year's (2006) conditions, the sum total of subsidies, re-exports and financing provides the Cuban regime with not less than US\$1.4 billion a year in extra revenues. Even though Cuban cooperation has been decisive in the Chávez government's implementation of assistance programmes for the poorer classes, the monetary value of these services is not clear, nor is it easy to determine their effectiveness. However, regardless of such calculations, both regimes consider the exchange of 'oil for skilled workers' to be a very favourable arrangement.

These agreements are the subject of considerable consideration and criticism. While acknowledging the right of the Chávez government to supply Cuba with this aid, it is legitimate to question whether, given its huge size, it can be maintained indefinitely. Harsher critics question whether an expense of this magnitude is reasonable for a country that is not a first-rate power –one that has to deal with its own serious problems of poverty, unemployment and underinvestment in its own oil industry–. This agreement has been complemented with legal recognition of the Cuban regime's jurisdiction over Cuban workers and technical personnel living in Venezuela under the agreement –an issue that raises ethical doubts regarding this exchange of 'workers for oil'–. Finally, a not insignificant issue is that these agreements have led Cuba to become highly dependent on Venezuelan aid, to the point that if it is discontinued, Cuba could suffer the same kind of economic collapse as occurred after the fall of the Soviet Union.

#### *Cheap Oil Agreements with Municipalities in El Salvador and Managua that Share Political Affinities*

The attempt to use oil as a tool for political interference in electoral battles in other countries is flagrantly present in the agreements recently signed by Chávez. In El Salvador, the agreement with the organisation of mayors belonging to the Frente Farabundo Martí, provides these municipalities with oil through PDVCaribe (a PDVSA subsidiary) at discounted prices and with the possibility of paying up to 40% in agricultural products. There is another similar agreement in Nicaragua, with Sandinista mayors who support the candidacy of Daniel Ortega, whom Chávez has backed publicly as his candidate in the next presidential elections.

#### *Mexico, Colombia and the Plan Puebla Panamá*

In June 2001, the Presidents of Mexico, Belize, Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica and Panama announced the Plan Puebla Panamá (PPP), aimed at

accelerating the integration of 'Meso-America', that is, Mexico's nine southern states and the seven Central American countries.

For several years, this idea was not met with very active interest in Mexico, and focused mainly on the development of roadway infrastructure. However, as the Cuba-Venezuela connection has made itself felt increasingly throughout the subregion, Mexicans have returned to the initiative with a more specific geopolitical interest: one of the key concerns of the PPP today is energy and oil. In mid-2005, an international call for tender was issued for the construction of the 'Electrical Interconnection System for Central America' with an investment of US\$340 million. Consideration is also being given to collaboration between Mexico and Colombia to exploit both countries' oil and gas resources.

Finally, in November 2005, in the PPP framework, the Central American and Mexican Presidents agreed to move forward with the construction of a plant with the capacity to process between 350,000 and 400,000 bpd. This would be built in a Central American country yet to be determined, but not in Mexico, since that country's constitution does not allow the construction of refineries there with private capital. This refinery would cost an estimated US\$6 billion and would be financed 40% by Mexico, 20% by the Central American countries and 40% by private investors. If this initiative moves forward, the countries in the region would have access to a greater variety of crude markets.

Colombia, motivated by geopolitical concerns similar to Mexico's, has become an observer of the PPP, with the commitment to play an active role. This collaboration could become significant on the energy front, given the opportunities this Andean nation would have to supply hydroelectric power, gas, oil and coal.

#### *The Reform of the Oil and Gas Sector in Mexico*

Energy politics in Central America and the Caribbean is inextricably bound to what happens in Mexico –the biggest producer in the region, even though it is not the country with the biggest reserves–. PEMEX, the Mexican state-owned oil company, has a monopoly on the extraction, refining and distribution of oil and gas. It is by far the biggest taxpayer in the country. PEMEX's efficiency is being questioned, since its reserves are diminishing, it does not invest enough in exploration, it lacks sufficient capacity for refining heavy crudes, it is lagging in exploration and operations in deep waters and it has high administrative costs. It is true that PEMEX invests twice as much as its Venezuelan counterpart, but it is far from reaching levels that would allow the necessary increases in production. This raises the question of whether Mexico needs to open up to domestic or even foreign private investment in the energy sector. However, this is a very touchy issue to present for public policy debate, as was seen during the recent presidential campaign, when even the right-of-centre candidate ruled out any eventual end to the PEMEX monopoly in the oil sector. Recently, however, the natural gas sector –in which Mexico has already become an importer– has been opening up to private investment on a *de facto* basis, although this has not yet been backed by constitutional or legal reforms. The Mexican Energy Regulatory Commission (CRE) first granted gas distribution concessions and then, through so-called multiple services contracts (CSMs), it allocated blocks for natural gas extraction. Also, Felipe Calderón, the winning candidate in the latest presidential election, in the context of statements in favour of maintaining the PEMEX monopoly, insisted several times that modernisation was necessary, but did not give details. These are certainly developments that should be studied carefully in the coming years.

#### **IV. Oil Politics in the Andean Region**

The Andean region has two features that must be considered in this study: one is its energy wealth; the other is the seriousness of its political, social and ethnic crisis.

The first feature makes it the region of the Americas where 'oil diplomacy' is likely to have the least impact. The opportunities that oil and gas provide to gain influence are greatest when there is asymmetry in the relationship between nations and where there is a big supplier of a resource surrounded by several countries that lack it. This type of relationship, which leads to dependency, does not exist in the Andean region because the countries there are net exporters of energy to the world, with huge reserves of oil, gas, coal and hydroelectricity. Energy self-sufficiency in these countries means that there is practically no energy integration in the region, except for some slightly significant integration of electrical systems. Only in the past year have there been a few important bilateral agreements between Colombia and Venezuela, and a few attempts in this direction between Venezuela and Ecuador, though with no results yet.

The second feature, however, opens the door to greater and lesser powers who want to exert their influence to gain power inside other states. They do this by financing open or concealed political action that tends to destabilise their governments or else by supporting parties or candidates sympathetic to their interests and projects. This, as we suggested in the introduction to this study, is not 'oil diplomacy', but simply the naked exercise of power based on a country's wealth; whether it is based on oil or not is of little significance.

Andean countries are vulnerable to this kind of political intervention since they face problems of governability resulting from deep flaws in their political systems. This is a region that has seen several attempts at state reform, institutional crises and threats of such crises, the resurgence of a political role for the military and, in some of these countries, problems caused by violence, guerilla warfare, drug trafficking, economic crisis and poor economic results. All this has meant that at the start of this decade their citizens had per capita incomes lower than in 1990. The fundamental cause of the current crises in these countries can be found in the political arena: in their constitutions, party systems and electoral laws, in the relationships between civil society and political systems, in the standards of behaviour among their leaders and in their high levels of corruption. Also, in three of these countries, indigenous people represent more than a third of the population –a reality that has not been dealt with through coherent or effective policies, and which has created an ethnic divide that affects governability–.

Interventions of this second kind, which are not 'oil diplomacy' *per se*, but rather have openly political intentions, include repeated actions by Chávez. We will deal with these only briefly, since they are not the main focus of this study.

#### *Colombia*

In the energy field, Colombia is independent of Venezuela and all other countries. It is a net exporter of energy resources, with oil, gas, high-grade coal and abundant hydro resources.

Given the sharp decline in oil production in recent years, Colombia, under the Uribe Administration, has made an effort to reverse this situation with policies that are precisely the opposite of those now followed by Venezuela, Bolivia and, to a certain extent, Ecuador. These policies are pro-business and focus on: increasing security and controlling the guerrilla groups; reducing the number of kidnappings, acts of sabotage and extortion by guerrilla and paramilitary forces; reducing government taxes and royalties to 50%; authorising gas exports; and allowing 50%-50% exploration contracts with Ecopetrol to rise to 70%-30%. Also, Colombia enjoys prestige as a country that respects contracts and stable rules of play. Colombian policy for reforming Ecopetrol is similar to what Brazil did with Petrobras in the 1990s: the government has transferred the regulatory functions that previously corresponded to the state-owned company to a new body –the National Hydrocarbons Agency (ANH)– and recently announced the privatisation of 20% of

Ecopetrol's assets. The purpose of all this is to encourage a sharp increase in oil and gas exploration and production, since 80% of the country has still not been explored. Colombia's main regional partner in this effort is Petrobras, which has now become the fourth-largest producer, behind Ecopetrol, British Gas and Occidental, as well as being one of the leaders in exploration.

Given the current oil and gas situation, it can be affirmed that Venezuela now needs Colombia more than Colombia needs Venezuela and that there are more initiatives that interest the Chávez Administration than the Uribe government. One of these is the Transguajiro gas pipeline, which runs 330 km and will transport Colombian gas to consumers in Venezuela between 2007 and 2011 –and perhaps even until 2014–. The Chávez government considers this project such a priority that it has taken on the cost of its construction. This illustrates how little the gas sector has been developed in the Venezuelan economy. Another project, not yet underway, is the multi-purpose pipeline through which Venezuela wants to transport its crude to the Pacific Ocean in order to boost exports to Asia, and to China in particular.

At the political level, the struggle against the Colombian guerrilla movement has created certain tensions between the two countries and, at times, accusations have been exchanged of infringement of national borders. However, relations between the Chávez and Uribe Administrations have normalised over the past year. It should also be mentioned that Chávez and his Fifth Republic Movement arouse very limited interest in Colombia, and there are no groups there supporting the 'Bolivarian revolution'.

#### *Ecuador*

Like Venezuela under Chávez –though to a lesser degree– Ecuador has been following an aggressive policy against foreign investment which, in part, is the reflection of a country where the rules of play are constantly changing and which has very weak institutions, as was shown in 2004 and 2005, when the nation went fifteen months without a Supreme Court of Justice. The oil sector is now going through a number of conflicts, for example, the drawn-out dispute over the tax debt (VAT payments) owed by private companies and, recently, the implementation of the reformed Hydrocarbons Act, which forces changes to contracts with oil companies so that they pay 50% of surplus profits from high oil prices. But perhaps the most sensitive issue has been the government's termination of the contracts with Occidental Petroleum, which was producing about one-fifth of Ecuador's oil and which was accused of making an unauthorised sale of 40% of a block of oil in the Amazon region to a Canadian company.

However, in what is an apparently contradictory move, at the end of May Ecuador's Minister of Energy indicated that the country would be implementing two measures aimed at opening up to participation by foreign companies: one was the announcement that oil exploration zones with reserves of more than one billion barrels would be put up for tender, particularly to state-owned companies; the other was that in the following month and a half, Block 15 (the cancelled Occidental concession) would be given to a foreign oil company –ideally a state-owned one– with specific reference made to ENAP, Petrobras and Ecopetrol.

Venezuela's relations with Ecuador are more complicated than with Colombia. In 2005, when attacks on Ecuadorean oil pipelines prevented the country from fulfilling supply contracts, Chávez made a well-received gesture to Ecuador consisting of a so-called 'oil loan' to enable Ecuador to honour its commitments. More recently, Ecuador and Venezuela have been unable to successfully negotiate for PDVSA to take charge of Block 15 operations in exchange for providing Ecuador with refined products. This most recent failure is one of a number of unsuccessful proposals by Venezuela –which has excess refining capacity– to process Ecuadorean crude.

On the political level, Chávez has made overtures with results that are difficult to assess. At the start of the Lucio Gutiérrez Administration, there was a failed attempt to establish close relations based on the military background of both leaders. After Gutiérrez fell from power and in the early months of his successor's term, Vice-president Palacios appointed a cabinet that sought collaboration with Chávez through Foreign Affairs Minister Antonio Parra and, particularly, Economy Minister Rafael Correa, whose term was characterised by his anti-Bush, anti-IMF and anti-World Bank rhetoric. Venezuela replied with offers to buy US\$500 million in Ecuadorean public debt, which was then reduced to US\$200 million and, finally, to nothing at all. The presence of Parra and Correa in the cabinet was ephemeral and the rapprochement to Chávez ended.

Ecuador now faces presidential elections, with the first round scheduled for October 2006. One of the candidates is Rafael Correa, who has been trying, with unclear results, to create a coalition of leftist forces and the Pachakutik indigenous movement. Correa has received the support of Hugo Chávez.

#### *Peru*

Despite being an oil importer, Peru is not at the mercy of oil-related events, given the very small size of its deficit in this resource. This is even more true since gas from the Camisea field has made the country both an importer of small amounts of oil from the international market and a major supplier of natural gas.

Peru has decided to export the Camisea resources in the form of liquefied natural gas, and has projected the construction of a liquefaction plant at a cost of US\$3.2 billion, in association with Hunt Oil and Repsol-YPF, in order to export gas to the Mexican and US markets.

An interesting integration initiative –unfortunately not successful to date– in which Peru plays a key role, is the so-called 'energy ring', proposed in June 2005 at the meeting of Mercosur Presidents. This would be an interconnected system of gas pipelines –some already existing and others yet to be built– which would link Camisea with northern Chile, cross over to Argentina, Paraguay and Uruguay and, finally, connect with southern Brazil. The project, however, has met two obstacles: The first is Peruvian policy, which considers the current Camisea reserves to be sufficient only to cover domestic consumption and the liquefied natural gas project; the second is that until Bolivia's coastal access claim is dealt with, this land-locked country will resist collaborating with an initiative that would supply Chile's oil demands.

Peru is not dependent on Venezuela or any other country for energy. However, Chávez has intervened actively in Peruvian politics in recent months in support of the candidacy of Ollanta Humala. Reacting to provocation by Alan García, he got involved in a heated controversy with the Peruvian president, eventually leading to the withdrawal of the ambassadors of both countries.

#### *Bolivia*

When Evo Morales became President of the republic in January this year, Bolivia's policy changed in two key areas that have a bearing on this study: its new nationalisation policy and its review of natural gas export prices.

The nationalisation of oil and gas is not surprising if we keep in mind that this was the main plank in Morales' election platform and was based on a plebiscite in 2004 that ordered the state to 'recover the ownership, possession and total and absolute control' of these resources.

On 1 May this year, Morales issued a nationalisation decree establishing a 180-day period for oil companies that decide to continue in the country to sign new contracts with the state, guaranteeing public control and management of their activities. This measure was accompanied by changes in the profit-sharing arrangement with the companies, so that 82% would go to the Bolivian state and 18% to the companies for operations in the biggest fields. The arrangement would be 60%-40% for smaller fields. The Spanish company Repsol-YPF and the Brazilian Petrobras were the two companies most affected by this process.

Nationalising the investments of the Brazilian state-owned oil and gas company has had an impact beyond strictly energy issues. It has opened a gap between Morales and Lula da Silva. This is a delicate matter, since Brazil is Bolivia's most important economic partner: it buys 70% of Bolivia's gas and is the main source of investment both in the oil and gas sector and in the agricultural economy of Santa Cruz de la Sierra, as well as being the country's main supplier of industrial products. Brazil and Bolivia, despite their different interests, are complementary economies destined to pursue broad-based collaboration.

Brazil has reacted harshly. At the Mercosur meeting in Caracas, Lula refused to meet with Morales, claiming that discussions of gas prices were not a matter for the President of Brazil, but for Petrobras. But what is most serious is that the government of Brazil has stated that its main strategic goal is to end its dependence on Bolivian gas as quickly as possible. To demonstrate that it is serious about this, it has already begun taking four steps: First, it suspended the extension of the Bolivia-Brazil gas pipeline to send a message that it is not considering any increase in purchases from its neighbour. Second, it has begun construction on two large LNG plants –there is even talk of a third one– indicating that it is going to look for gas in countries such as Trinidad & Tobago, Nigeria, Angola and Indonesia. Third, it has trebled current levels of investment in natural gas exploration and extraction. And fourth, it has cancelled commitments by Petrobras to invest US\$5 billion over the next five years (2007-11).

Chávez's aid and advice to Morales on the nationalisation process –an issue we will refer to later– has strengthened energy cooperation between La Paz and Caracas. In terms of energy policy, this does not appear to be an especially good deal if it comes at the cost of ending collaboration with Brazil on these issues. Bolivia has a small oil deficit that could be satisfied in various markets, including Argentina or even Brazil. Bolivia and Venezuela are not complementary in terms of energy; rather they are competitors with the two largest reserves of natural gas in the region. By contrast, the economies of Brazil, Argentina, Uruguay and Chile are complementary from an energy perspective, since they are all importers of gas. At the same time, asking PDVSA and not Petrobras to help develop the gas industry is a mistake because the Brazilian company is a world leader in the field, while PDVSA –despite the huge reserves in Venezuela– has been unable to develop its own gas industry.

On the energy front, the most formal relations between the Chávez government and Bolivia consist of an 'Energy Sector Cooperation Agreement' (ACSE) and the Caracas Energy Cooperation Agreement (ACEC), signed the day after Morales took office, establishing essentially that: (1) Venezuela will supply 'up to 200,000 barrels a month or its energy equivalent'; (2) this supply will be 'up to the volumes required to satisfy internal demand'; (3) forms of payment and financing will be set up for Bolivia; (4) Bolivian products or services will be accepted as payment; (5) as with PetroCaribe, financing will increase as the price per barrel of oil rises; (6) Venezuela agrees to help PDVSA restructure and modernise YPFB and 'set up mixed companies between YPFB and PDVSA to develop projects for the exploration, production, refining, distribution chains,

processing and industrialisation of hydrocarbons'; and (7) contemplates the 'creating PDVSA Bolivia and opening an office in Bolivia...'

In themselves, these are small-scale agreements. They cover a small amount of oil, perhaps 6,600 bpd, which is insignificant compared with the 90,000 bpd provided to Cuba. The fact that an oil bill of only around US\$13 million is involved suggests that this will also be a very minor financing operation. Likewise, there is not much opportunity for Bolivia to pay with its products, considering that in 2005 Venezuela bought a total of only US\$160 million in Bolivian goods and services, only a small part of which could be swapped for oil. Finally, the support and association agreements that PDVSA can offer YPF are not the best choice, given the managerial weaknesses of the Venezuelan company.

Almost at the same time as the nationalisation process was carried out, the Bolivian government began renegotiating the contract prices for gas supplies to Argentina and Brazil –an issue on which Bolivia was right to take action, since the gas prices paid by Brazil and Argentina were far below market prices–. However, for Evo Morales it has been an unpleasant coincidence that this dispute over prices broke out at almost the same time as the nationalisation process began, since it has increased already high tensions with Brazil and created new ones with Argentina –nations that account for 100% of Bolivia's gas exports–.

Obviously, changes of the magnitude of nationalisations affect industry in terms of investment in gas exploration and development, while price increases and possible insecurity in terms of supply contracts being honoured, lead current and potential gas buyers to look for alternative energy sources. These issues –the tensions created by prices negotiations and the responses aimed at the diversification of energy schemes– will be studied in the next issue, which will deal with energy policy in the Southern Cone.

Less than seven months after the nationalisation, the Morales government has begun to learn the hard way that while it is easy to make such a decree, taking charge of nationalised activities is an enormous task. Clearly, YPF has neither the organisation nor the human resources or capital to operate and develop the gas industry by itself. Bolivia's oil and gas minister acknowledged this by indicating that the full effects of oil and gas nationalisation will be 'temporarily suspended' while YPF is restructured and funds are located to finance the necessary increases in investment.

At another level, the sway that Chávez holds over Bolivia is not based on energy dependence, but on political and ideological instruments laid out in a cooperation agreement that copies the one already existing between the Castro and Chávez regimes, consisting of sending Cuban and Venezuelan technical workers to implement assistance programmes in Bolivia similar to the 'missions' set in motion by Chávez.

Chávez financed part of Morales' election campaign and the day after he took office, Morales signed agreements between Venezuela and Bolivia that established broad-based collaboration, as stated below:

'(...) we will collaborate in education, in identification services and in health care'... 'the parties, by mutual agreement, may invite other countries in the region to participate in the cooperation activities stated in this instrument...'

This provision was a way of extending the undertaking to the Cuban regime –something that was in fact done in the following weeks–.

'Support for the decision to tackle illiteracy and its effects in a 30-month period, making use of the experience developed in this area by the Venezuelan government...'

Two months after signing the agreements, the illiteracy campaign was launched with President Morales and the Cuban and Venezuelan Education Ministers in attendance.

'Exchange of trainers, technical personnel, specialists and experts in the sports field'.

'Training of Bolivian personnel in the Bolivarian Republic of Venezuela, in the framework of the five thousand bursaries offered to the Republic of Bolivia by the Bolivarian Republic of Venezuela'.

The high number of bursaries is significant, although no information is given on their characteristics, length or beneficiaries.

'The Bolivarian Republic of Venezuela, in collaboration with the Cuban medical mission to Venezuela and Bolivia... agrees to extend the "*Misión Milagro*" ("Miracle Mission") to Bolivian patients suffering from the following pathologies...'

'The Parties agree to an effective exchange of experiences in the area of citizen identification, taking into account the practical experience gained in the Venezuelan "*Misión Identidad*" ("Identity Mission") implemented by the (Venezuelan) Ministry of the Interior and Justice, in order to ensure citizen identity rights'.

This is an issue of particular concern. On the one hand, identification, through the provision of identity cards to the poorest people, is an excellent thing and a great aspiration among this sector of the population. However, according to the opposition, this mechanism has been used in Venezuela to fraudulently change the voter list and give the vote to people who are not entitled to it.

In early July elections were held in the Constituent Assembly where, once again, there were loud protests that Chávez had participated in financing the electoral process. It will be interesting to see whether the wording of the new Founding Charter (*Carta Fundamental*) will reflect concepts that are the pillars of the Constitution of the Bolivarian Republic of Venezuela, passed in 1999.

## **V. Oil Politics in the Southern Cone**

As we have already discussed, the energy situation is very different in the various regions of Latin America. In Central America and the Caribbean, there are greater opportunities to use oil and gas as political tools, because in those regions several big energy producers cohabit with more than 20 countries that are almost all economically small and lacking energy resources. In the Andean region, by contrast, the opposite is true because all the nations there are oil or gas producers to a degree that satisfies not only their own domestic demand, but gives them a favourable trade balance.

Things are different in the Southern Cone. Brazil and Chile account for more than half of all oil and gas imports in Latin America, but other countries find themselves in different circumstances. While Chile produces only 4% of the oil it consumes, Brazil produces 75% of what it needs to satisfy its internal market. Furthermore, for 70% of its crude imports, Brazil relies on suppliers from outside the region (mainly Nigeria, followed by Algeria and certain Asia Pacific countries); Chile, by contrast, buys 70% of its imports from countries in the region, but fortunately has good refining capacity. Argentina, meanwhile, is still self-sufficient in oil and gas, although its reserves are dwindling. Finally, two smaller countries –Uruguay and Paraguay– do not produce oil and gas at all; however, Paraguay is energy independent because of its abundant hydroelectric capacity.

Regarding Venezuela's opportunities to use its resources to gain political influence over Southern Cone nations (beyond what could be considered 'oil diplomacy' *per se*), these appear to be limited, considering the political, economic and international importance of Brazil and Argentina in particular. These are nations in which Venezuela –a country of relatively minor importance– is very unlikely to be able to establish leadership or any degree of hegemony. Chile, meanwhile, is similar in economic size to Venezuela –greater or lesser depending on the rise and fall of crude prices– but its macroeconomic stability, the diversification of its production structure, its greater political development and its international prestige in the markets make it, like Argentina and Brazil, nearly invulnerable to operations directed from Caracas. Something similar could be said of Uruguay which, though economically smaller, has one of the most advanced political systems in the continent.

Our study of energy issues in the region focuses mainly on the following topics: Brazil's efforts to achieve oil and gas self-sufficiency; Chile's attempt to diversify its energy schemes to achieve its independence from Argentine and Bolivian gas; the tensions among Bolivia, Argentina, Brazil and Chile over the price of gas; and Venezuela's relations with the Southern Cone countries regarding the extraction of heavy crudes in the Orinoco Belt and the so-called 'Southern Gas Pipeline'. Finally, we cannot consider the energy issues in the region without including Bolivia, the poorest nation in South America, but one with a huge abundance of natural gas that could enable it to service the needs of Brazil, Argentina, Uruguay and Chile. Bolivia is, in this sense, the gas 'lung' of the Southern Cone.

#### *Brazil*

It is interesting that in the past decade the country that has developed its oil and gas industry most forcefully and successfully is not a major producer like Venezuela or Mexico, but a net importer: Brazil.

In the 1990s, Brazil stripped Petrobras of its regulatory functions and transferred them to the then recently created National Petroleum Agency; then it ended the state monopoly, opening the sector to private business. Petrobras –in which the state holds a 30% public stake, as well as political rights to 55% of the company– has proved to be an instrument of considerable efficiency, and has become a world leader in fields such as deep water exploration. According to a recent report (Karl Royce, 'Business News Americas. Energy Intelligence Series'), its international activity has made the state-owned company a leader in this field: since 2004 Petrobras has bought shares in exploration concessions in Equatorial Guinea, Nigeria and Libya; it has also bought Shell's distribution assets in Colombia, Paraguay and Uruguay; it has signed a pre-agreement for the purchase of a US refinery; it has created a subsidiary for methanol imports in Japan; it has been awarded offshore exploration rights in Venezuela and Colombia; it has bought the natural gas distributors Gaseba and Conecta in Uruguay; it has made discoveries in the Gulf of Mexico, where in 2004 it began to produce natural gas in deep water; and in 2005 it was awarded 53 concessions for gas exploration.

Despite recent criticism that under Lula the company would suffer political interference in its management –an accusation denied by the government– Petrobras shows high levels of efficiency as well as very high levels of investment (US\$7.7 billion in 2004). Recently, Petrobras announced that in the next five-year period, its investments will average more than US\$11 billion a year.

This year Brazil has made two important announcements that are changing energy geopolitics in the region:

First, the country has achieved oil self-sufficiency. In late April, Lula declared that this year Brazil will no longer be a net importer of crude. Brazil's consumption is estimated to be 1.85 million bpd. In 2005, the country's production reached 1.7 million bpd, but it is estimated that in 2007 this will rise to 2.0 million bpd. Brazil's goals are extremely ambitious: 3.4 million bpd in 2011, supported by announced investments of US\$56 billion in 2005-10. Even though this goal looks difficult to achieve, it is beyond doubt that Brazil will soon be self-sufficient in oil –likely this year and certainly in 2007–.

Secondly, there has been a spectacular increase in the country's natural gas reserves, particularly due to discoveries in the Santos Basin, which Petrobras believes is the biggest find in Brazilian history. According to the latest data, these gas reserves, estimated in 2002 at 70 billion cubic metres, are now estimated at 400 billion cubic metres.

Brazil's oil deficit has not linked it to Venezuela in any case, but rather to Africa. Its main supplier of crude oil is Nigeria, while Algeria is also a key supplier. Brazil has attempted to balance its trade deficit with both countries by using oil imports to increase its manufactured exports and has made lines of credit available to Nigerian and Algerian businesses.

But while oil led Brazil to Africa, gas has linked it to Bolivia, creating a very close bond. Petrobras is the biggest foreign company producing gas in Bolivia, with 43% of the country's proved and estimated reserves and US\$1.5 billion invested in the sector since 1994. Brazil is Bolivia's largest gas importer, with the most extensive gas pipeline system in the region linking the two countries.

A rational political decision on the part of the Morales government would have been to strengthen these ties, since in addition to the factors discussed above, there is political affinity between Presidents Lula and Morales, as well as other more permanent bonds such as the complementary structure of the two economies and the fact that Brazil is Bolivia's main source of investment. Despite all this, Morales went ahead and nationalised the Petrobras gas fields.

As we mentioned earlier, it is true that this measure was predictable, but it was done with a lack of tact that was inappropriate to relations with friendly governments such as those of Spain and Brazil. The nationalisation was carried out without prior notice and the fields in question were occupied by the armed forces.

The hand of Chávez was clearly visible in the Bolivian government's nationalisation of the oil and gas sector, and this has had a very significant impact on regional politics, distancing the governments of Brazil and Venezuela. Chávez acted recklessly in this affair. Morales made the nationalisation announcement on 1 May, immediately after stepping off the airplane that brought him back from a meeting in Cuba with Chávez and Castro. In the next 48 hours, Chávez organised a summit to study the issue in Puerto Iguazú. Kirchner and Lula attended, as did Morales, whom Chávez had stopped by to pick up the night before. At the time, the media gave abundant coverage of the arrival of Venezuelan lawyers sent by Chávez to advise on the nationalisation process, while PDVSA immediately went to work to provide assistance to YPFB. Making the connection even clearer, the type of contract offered by the Morales government to companies operating in Bolivia is nearly identical to the operating agreements that Chávez requires of foreign companies in Venezuela. Twenty days after nationalising the gas fields, Chávez, on his second visit to Bolivia that month, declared his intention to invest US\$1.5 billion in the Bolivian energy sector, though he did not specify either time frames or projects. This amount of money –if it materialises– sounds like a lot, but is far from compensating for the

US\$5 billion in investments that Petrobras had planned, and which the nationalisation put to an abrupt end.

In reaction to the nationalisation, the Brazilian Foreign Minister Celso Amorim accused Venezuela of political intervention. The Lula government indefinitely suspended the implementation of five pre-contracts on energy issues that included hundreds of millions of dollars and suggested postponing a visit to Brazil that Chávez had announced.

Despite this distancing, attention should be drawn to the development of two projects that continue in place and which will be carried out through a joint venture between PDVSA and Petrobras: one is the exploration and production of super-heavy crudes in the Orinoco Belt by Petrobras; and stemming from this, the installation of a heavy crude refinery in Pernambuco (Brazil) at a cost of US\$2.5 billion.

### *Chile*

Chile's energy situation is considerably more delicate than Brazil's. To start with, as we mentioned earlier, Chile produces less than 4% of the oil and 20% of the gas it consumes. But in addition to this, energy relations with its neighbours are marked by various degrees of dispute and even outright conflict.

In 1997, Argentina became the sole supplier of natural gas to Chile, with 77% of its exports going to that market. Over time and as a result of the crisis, Argentina entered a vicious circle in which fixed prices made gas an extremely cheap fuel with contradictory effects: on the one hand, consumption was stimulated but, on the other, the incentive was removed to invest in exploration, production and transport. Under these circumstances, the Kirchner government had to face the dilemma of restricting domestic consumption or reducing export volumes to Chile, which ended up being the chosen option. Beyond the controversy in which Chile has accused Argentina of breaching contracts and Kirchner has justified his decision by saying that this was something he had the right to do in order to guarantee domestic supply, what is clear is that Argentina will be no longer be a net exporter of gas within two years and that, therefore, Chile must find a new supplier or replace natural gas with some other kind of fuel. Buenos Aires has already increased its imports of Bolivian gas this year from five million to seven million cubic metres a day.

However, the most complex conflict facing Chile has been with Bolivia.

In the early years of this decade, Bolivian governments considered the idea of transporting gas to a Chilean port, liquefying it and sending it to markets in Mexico and the United States. The economics underlying this project seemed unquestionable, but it was impossible for political reasons. With the governments of Carlos Mesa and Evo Morales, energy policy regarding Chile has adjusted to fit the slogan: 'not a molecule of gas until we have ocean access'. For Chile, this has meant the end of the supply from Bolivia. However, as Argentina has signed contracts in recent weeks to import Bolivian gas, Chile must be relieved: now that 'molecules' of Bolivian gas are available to Argentine consumers, Argentine 'molecules' of natural gas will be freed up to supply Chile.

Finally, regarding Peru, the possibility of a gas pipeline connecting the Camisea reserves with the north of Chile –a project that Chilean companies are enthusiastic about– does not interest Peru, where it is calculated that the sum of domestic consumption and the LNG project will not leave gas available to sell to Chile.

Under these conditions, Chile has developed a policy aimed at diversifying its energy schemes. This translates into new funds for hydroelectric plants in the south, boosting coal-powered thermoelectric plants, especially in the north, and combined-cycle plants. A

new law providing incentives to electric plants (*Ley Corta II*) has led to 26 new power generation initiatives for a total investment of US\$2.17 billion. The government recently announced natural gas discoveries in the extreme south and, despite certain scepticism regarding their magnitude, there are hopes that during the last half of the year the size of these reserves will be determined. ENAP, in an agreement with British Gas, has begun construction on a plant for deliquifying natural gas that will begin operating in the centre of the country in late 2008 or early 2009, guaranteeing greater independence from Argentine and Bolivian gas. Finally, in mid-August an agreement was announced between two companies –Suez Energy, a French company, and Gas Atacama– to build a LNG terminal to supply electricity to the big mining companies in the north of the country.

To implement its energy policy, Chile is counting on ENAP, a state-owned company with international prestige in refining and with investments in downstream markets in Ecuador and Peru. It is also participating in oil operations in Ecuador, has sold its rights in Colombia and is exploring possible investments in Venezuela.

Political relations between the Chávez regime and the governing coalition in Chile have not been easy. The overwhelming majority of the coalition claims to be left of centre, but finds the politics and style of the Bolivarian revolution distasteful, despite avoiding open statements to this effect. Chávez, in turn, has not hesitated to put the Lagos government in the enemy camp. In his speech at Fuerte Tiuna, he said: ‘two opposing axes have been defined... one is Caracas, Brasilia, Buenos Aires... the empire is going to try to weaken it... there is another axis, Bogotá (Uribe), Quito (Lucio Gutiérrez), Lima (Toledo), La Paz (Mesa), Santiago de Chile (Lagos); this axis is dominated by the Pentagon...’.

Among the Southern Cone governments, Chile’s is most distant from the Chávez regime. This distance could grow if in October President Bachelet decides not to vote for Venezuela in its bid to win a non-permanent seat on the UN Security Council.

#### *Paraguay and Uruguay*

On the gas pipeline issue, little attention has been given to an initiative launched in April of this year by the Presidents of Bolivia, Uruguay and Paraguay, with the presence of Venezuela, to construct a 6,000-km-long pipeline that would start at Tarija (Bolivia), cross Paraguay through Puerto Casado and end in Montevideo. The announced cost –US\$450 million– looks at first glance to be an underestimate, but Venezuela has said it is willing to contribute to financing the project.

In mid-2005, it was announced that Venezuela had begun sending 9,000 bpd to Paraguay.

Regarding Uruguay, PDVSA and the Uruguayan state-owned oil company, ANCAP, have announced a joint venture to extract heavy and super-heavy crudes from the Orinoco Belt in order to guarantee Uruguay a supply for the next 25 years. This would mean expanding and modernising Uruguay’s La Teja refinery, so that it can process this type of oil. Financing for the US\$200 million investment has been offered by Venezuela. Uruguay would pay up to 67% in exportable products and the rest in instalments with preferential interest rates.

#### *Argentina*

During the 1990s, Argentina followed an energy policy based on three priorities: first, aggressive privatisation –perhaps the most drastic seen in the region–; second, strong deregulation that practically excludes the state from control of energy resources; and third, in concession contracts to private companies, rates were set in pesos, convertible to dollars at par with the peso. The initial impact of these policies was that the sector grew at rates of 4.5% (oil) and 5.5% (gas). However, these successes hid serious weaknesses,

since they were based on the over-exploitation of known reserves without any regulatory framework establishing obligations to invest in exploration, production and transport. This seriously damaged the country's future supplies. With the crisis of 2002, convertibility came to an end and wellhead gas prices were partially frozen, creating a relatively major conflict between the oil companies and the government, which was accused of unilaterally breaking the rules of play.

The failure to solve this dispute between the companies and the government has left Argentina without an energy policy, despite that fact that everything points to the country having large oil and gas reserves. Argentina is still a net gas exporter, but the rapid growth of its internal demand, the failure to discover significant new reserves and the lack of investment in exploration and production, will sooner or later make it an importer of natural gas. The issue is of crucial importance to Chile, which has depended on Argentina for the past decade as its only supplier of natural gas.

Among Southern Cone countries, Argentina has the closest relations with Venezuela.

In August 2005, Chávez and Kirchner signed an agreement by which Venezuela sold four million barrels of fuel oil, at a total cost of US\$340 million, which would be paid partly in cash and partly with Argentine products and services, including ships, agricultural machinery, a hydraulic laboratory and lifts. In part because of these negotiations, Buques y Astilleros de Venezuela and Astilleros Río Santiago reached an agreement worth US\$112 million to build two oil tankers –later raised to four ships– which Chávez would use to start a new tanker fleet called Petroamericana. Also, PDVSA and the state-owned Argentine energy company, ENARSA, entered a joint retail operation to buy or install more than a hundred benzene pumps.

In July this year, Venezuela acquired US\$245 million in Argentine sovereign bonds, bringing its total purchases of these instruments to nearly US\$3 billion, most of them maturing in 2012. This acts as a line of credit between the two governments that is favourable to Argentina.

There has been criticism and suspicion of these agreements both in Buenos Aires and in Caracas. It has been claimed that Argentina has paid for Venezuelan fuel at a price 20% higher than the international market price. At the same time, there are claims that the purchases of Argentine bonds have generated complex and lucrative speculation in which debt bought by the Bolivian Finance Ministry is sold to Venezuelan banks which, in turn, sell them on the New York stock exchange and repatriate the profits to be liquidated on the parallel currency market in Caracas (Buenos Aires, *Noticias* magazine, 29 July 2006).

But aside from these deals, which are under scrutiny, Argentina is concerned about facing a difficult energy situation. In recent months, the Kirchner government has expressed interest in developing its offshore oil fields and has asked both PDVSA and Petrobras to collaborate. Given Brazil's superiority in this field, the agreement will likely be made with Petrobras.

What is most interesting, however, is the announcement made in late August by the Planning Minister, Julio De Vido, of an investment of US\$3.5 billion in a huge nuclear energy programme. This would mean building a new enriched uranium plant, closing the Atucha II plant (the construction of which has been paralysed since 1994) and extending the useful life of the existing Embalse plant. If this comes to pass, Argentina would have four nuclear plants, making it the Latin American leader in this field.

### *Tensions Over Setting Gas Prices*

Another level of tension among countries in the region involves the issue of natural gas prices. For some time, Bolivia had been a relatively cheap supplier of gas for Brazil and Argentina. However, in July this year, Bolivia and Argentina agreed to increase prices from US\$3.20 to US\$5 per million BTU, delivered to the border, representing an increase of 56%.

Negotiations between Bolivia and Brazil are underway and threaten to be long and hard. First of all, because Brazil is entering them with the grievances brought about by the nationalisation of the energy sector; and, secondly, because they are happening in the final months of the Brazilian presidential race and Lula will not risk appearing to give away too many concessions to the Morales government.

Chile, despite the failure to provide the promised deliveries, had been benefiting from price setting in Argentina, and was paying between US\$2.80 and US\$3.40 per million BTU for its imports. Now it will have to deal with higher prices to buy Argentine gas—in the order of US\$ per million BTU—.

Furthermore, these higher prices are only for delivery to the border, with additional costs for transporting the gas to its points of consumption. This makes Bolivian gas expensive, not extremely expensive, but enough to make it attractive to begin considering projects that could replace it with alternative fuels. With the additional transport costs included, Argentina has to pay in the order of US\$6 per million BTU for Bolivian gas.

### *Investment in the Southern Cone on the Orinoco Belt*

Levels of light crude reserves are now at historic lows. By contrast, there is abundant heavy crude and sulphur-rich crude, but refineries dislike them because they are difficult to treat and expensive to turn into light products. There are few refineries with the capacity to treat this kind of hydrocarbon. Venezuela has the greatest abundance of heavy crudes in the world. Exploiting this abundance should be the main focus of the country's energy policy. This means improving both the quantity and quality of its refineries and, at the same time, establishing joint ventures to extract, refine and market these crudes through agreements with companies or countries that own or that can build or finance plants with technology capable of processing low-API crudes.

If Venezuela's goal is to achieve greater independence from the US in terms of its exports, it must be clear about the nature of its current dependence: if it were not for the capacity of US refineries to process Venezuelan heavy crudes, these products might not have any market at all.

However, refining heavy crudes means major investments that PDVSA, on its current budget and with its resources siphoned off to a vast range of initiatives—from 'the missions' to aiding Cuba and Bolivia, to financing large gas pipelines—is not now able to tackle. At the same time, the higher royalties and taxes decreed by the Chávez government and the provision for PDVSA to take control of 60% of the company's shares as well as its management, is discouraging some of the main private investors in the region. According to Fitch Rating, this is the case of four heavy crude extraction projects approved in the 1990s—Cerro Negro, Hamaca, Petrozuata and Zincor—all of which are now considered high-risk ventures.

Under these conditions it is not surprising that PDVSA and the Venezuelan government are seeking joint ventures with state-owned oil companies in the Southern Cone—Petrobras, the Uruguayan ANCAP, the Argentine Enarsa and the Chilean ENAP—to explore, extract and refine heavy crudes. Joint ventures that include exploration and operations in the Orinoco Belt, as well as refining in the country of destination

(Pernambuco, Montevideo or Santiago) could prove to be the most stable option, given the rules of play, since this would involve participation in all stages of the production process (vertical integration) but with installations of similar importance for all the nations in the agreement.

It is likely that the projects of this kind that have already been announced will go ahead and others will appear, creating a kind of symmetrical relationship between Venezuela and its partners in other countries.

*The 'Southern Gas Pipeline' and Venezuela's Gas Integration in the Southern Cone*

In the last year, the President of Venezuela has been very actively developing the idea of a 'Southern Gas Pipeline' that would start in Puerto Ordaz, on the Caribbean coast of Venezuela, cross Brazil in two directions until reaching Uruguay and Argentina, and eventually the north of Chile, then connect with Bolivia and Peru. More than 9,000 km long, it would be a world-class piece of infrastructure. Europe's longest oil pipeline, connecting the Caspian Sea with the Mediterranean, running from Azerbaijan across Georgia and Turkey, is only 1,700 km long and took ten years to build.

If completed, the 'Southern Gas Pipeline' would be the greatest work of energy integration in the Americas. Such a monumental undertaking has captured the imagination of not only Hugo Chávez, the driving force behind the idea, but of many different sectors as well. However, there are technical, economic and environmental objections worth mentioning.

It is commonly affirmed in the gas industry that for pipelines more than 3,000 km long, LNG is the best option; in other words, for longer distances, it is more economical to have a liquefaction plant at the start, then regasify at the final destination. The argument is that transport costs over 9,000 km are so high that the supplier, in this case Venezuela, would have to sell gas at its border for no more than US\$2 per million BTU or even less, in order to maintain a final destination price (in Argentina, southern Brazil or Chile) that is competitive with Bolivian natural gas and with liquefied natural gas as well.

Energy demands in the Southern Cone would not justify an undertaking at such a cost. The current natural gas deficit in the two biggest net importing countries in the region (Brazil and Chile) is not more than 55 million cubic metre a day. Handling a demand of 55-70 million cubic metres a day by investing at least US\$23 billion –the estimated budget for the gas pipeline– is not economically viable. But the most persuasive argument against the viability of the project is that, as we have discussed, Brazil claims that it will very soon be self-sufficient in gas, while Argentina has launched a nuclear energy programme that could greatly reduce its demand for natural gas, apart from the fact that it is very likely to find its own new gas fields. Bolivia, for its part, will soon come to the conclusion that if it has enough gas to cover the current demands of Argentina, Brazil and Chile, a gas pipeline from Venezuela is almost an act of economic aggression. Does it make sense to bring oil from Puerto Ordaz when Santa Cruz de la Sierra is 7,000 km nearer and the pipeline connecting this city to São Paulo is only 2,200 km long?

There are also serious doubts as to whether Venezuela can finance an undertaking of this magnitude by itself. As we have discussed, worryingly low levels of investment are pumped into Venezuelan industry, not to mention the huge demands put on it by the great number of offers made by Chávez to many different countries.

Finally, it is certain that ecological groups will strongly oppose the route of a pipeline that will penetrate the Amazon jungle –one of the least explored regions of the world– thereby opening up the region to other human groups that would like to exploit its forests and riches.

## Conclusion

The term 'oil politics' can cover two types of situations: one is the result of applying force and hegemony to control this energy resource; the other is the sometimes open and arbitrary use of oil wealth to influence the policies of other countries, either directly or through covert operations. These activities are also considered part of so-called 'oil politics', but it would be more appropriate to say that they are simply an exercise of the power of wealth; it is not significant that oil, rather than diamonds or a powerful manufacturing industry, is the source of the wealth. These are different realities, but they must be considered together since, though easy to distinguish intellectually, they complement and reinforce each other in real political life.

However, in Latin America the opportunities to use oil for influence are somewhat limited because the region is rich in energy. In fact, Venezuela, Mexico, Colombia, Ecuador and Trinidad & Tobago are oil exporters, while Argentina and Bolivia produce enough to satisfy their own internal markets. Peru, Brazil, Chile, Paraguay, Uruguay and all the Central American and Caribbean nations (except Trinidad & Tobago) are net importers of crude.

As for Venezuela, its 'oil diplomacy' takes place in a specific context and under many adverse conditions. This is clear from our analysis of its oil industry, which reveals the stagnant production levels, underinvestment, incapacity to attract significant levels of private investment, the politicisation and poor management of PDVSA, and the presence of super-heavy crudes. Under these conditions, Venezuela's oil-based diplomacy depends on oil prices remaining high and is possible only as long as this situation continues.

Central America and the Caribbean is the region where oil and gas can be used most effectively as a political tool, because it is a region with big oil producers and more than 20 countries that are net importers of crude oil and gas. Two world-class producers – Venezuela and Mexico– are accompanied by two others –Trinidad & Tobago and Colombia– which, though not in the same league as the first two, are big producers at the regional level. Of the net importers, only two, Guatemala and Cuba, produce small amounts of oil, but not enough to satisfy domestic demand. In this context, an interesting game of influences has developed around energy. On the one hand, Venezuela, through PetroCaribe, is a key player, especially in a strategic alliance with Cuba. Venezuelan-Cuban activism has led to a reaction in Mexico and Colombia, whose action has tended to be channelled into the Plan Puebla Panamá, with new interest in strengthening their own energy policies.

At first glance, the Andean region looks like the region of the Americas where 'oil diplomacy' is likely to have the least impact, since the countries there are net exporters of energy to the world, with huge reserves of oil, gas, coal and hydroelectricity. However, their serious political, social and ethnic crises open the door to greater and lesser powers who want to exert their influence to gain power inside other states by financing open or concealed political action that tends to destabilise their governments, or else by supporting parties or candidates sympathetic to their interests and projects. Chávez has undertaken actions of this kind in every one of the nations in the region –an issue we have dealt with briefly, since it is not the main subject of this work–.

The situation in the Southern Cone is more diverse, since Brazil and Chile account for more than half of all oil and gas imports in Latin America. However, Venezuela seems unlikely to have much chance of 'oil diplomacy' considering the political, economic and international importance of Brazil and Argentina in particular. These are nations in which Venezuela –a country of relatively minor importance– is very unlikely to be able to

establish leadership or any degree of hegemony. Chile, meanwhile, is similar in economic size to Venezuela –greater or lesser depending on the rise and fall of crude prices– but its macroeconomic stability, the diversification of its production structure, its greater political development and its international prestige in the markets make it, like Argentina and Brazil, nearly invulnerable to operations directed from Caracas. Something similar can be said of Uruguay which, though economically smaller, has one of the most advanced political systems in the continent. Finally, we cannot consider the energy issues in the region without including Bolivia. It is the poorest nation in South America, but one with a huge abundance of natural gas that could enable it to service the needs of Brazil, Argentina, Uruguay and Chile. In this respect, Bolivia is the gas ‘lung’ of the Southern Cone and this will undoubtedly continue to lead to strong tensions with its neighbours, especially Brazil and Chile.

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