Venezuela's Oil Diplomacy May Dim

Carlos Macias
January 8, 2008

Citgo oil delivery to a low income house in Philadelphia. (AP Images)

Crude oil prices **continue to fall**, forcing countries such as Venezuela that rely heavily on oil exports to rethink their 2009 spending priorities. Earlier this week, the nonprofit organization Citizens Energy headed by U.S. Congressman Joseph P. Kennedy II (D-MA) **announced** that Citgo—the U.S.-based subsidiary owned by Venezuela—would curtail its fuel assistance program for low-income Americans. Two days later, Citgo and the government of Venezuelan President Hugo Chávez **asserted** that the program, which last year provided assistance to some 200,000 households in 23 states, would remain in place.

The reversal raised questions about whether Chávez's plan to continue the program represents a **costly political investment** at a time when oil prices hover around the $40 per barrel mark. The Economist Intelligence Unit's ViewsWire **explains** that Chávez "has his eyes more on the ballot box than on his purse strings." The analysis argues that, as he plans to call for a national referendum that would allow him to seek unlimited reelection, he must maintain his support base among the poor through social programs.

Yet, to strengthen its balance sheet, Caracas may find that it must cut back social programs that extend beyond its border, such as fuel assistance programs. A Stratfor **podcast** explains that "it is practically impossible" for the Chávez government to avoid cutting social programs, with cheap oil programs facing the greater risk. The report also suggests that, before reducing popular subsidies on medicines and gasoline, Venezuela may increase sales taxes, default on government contractor's compensation, or even halt payments on previous nationalization deals. An analysis by RGE's EconoMonitor reports that even if average oil prices float around $50 per barrel in 2009 and spending levels mirror those of 2008, Venezuela's fiscal budget **may fall** from a surplus of 0.7 percent last year to a 5.5 percent deficit in 2009. For now, they may rely on cash reserves that stand at roughly $38 billion, but risk a ratings downgrade if those reserves are depleted. "Venezuela's government is stuck. It needs to maintain spending to ensure political support, but it may find it harder to access needed funds," write RGE Analysts Italo Lombardi and Rachel Ziemba.

Left-leaning *Upside Down World* **recognizes** that "Venezuela has reportedly not been keeping up with current [Petrocaribe] quotas" and other initiatives like the Bolivarian Alternative of the Americas Banco del Sur, Petroamerica, and Petroandina have stalled.

Through the **Petrocaribe cooperation agreement**, Venezuela has provided cheap oil with preferential payment terms to 16 Caribbean countries since 2005. (Although Cuba is not part of the pact, Caracas also **supplies** Havana with 100,000 barrels per day plus contracts to boost Cuban refining capacity.) To ease worries over Venezuela's ability to continue supplying affordable oil, Dominican Republic President Leonel Fernández in December **offered a reassurance** that Petrocaribe provides elasticity on purchases and payments to the countries receiving fuel shipments and emphasized Chávez's commitment to keep the agreement afloat. In an op-ed for the Jamaican newspaper *Gleaner*, University of the West Indies Lecturer Robert Buddan **underlines the importance** of the pact for Jamaica, saying "Petrocaribe stands out as the best example of the benefits of regional cooperation." Former Attorney General of Grenada Lloyd Noel, writing for Caribbean Net News, recognizes how critical energy cooperation remains but **concedes** that "Now that the gas and oil bonanza is down to its lowest value for years, Venezuela in particular is no longer as influential in the negotiations as when it was selling crude oil at $140 per barrel as opposed to $40."

Read a previous AS/COA **analysis** on how falling oil prices have taken a toll on Venezuela's economy.

Send questions and comments for the editor to: ***ascoa.online@as-coa.org***.

See more in: **Dominican Republic**, **Cuba**, **Central America & Caribbean**, **Venezuela**, **Andean Region**, **Energy & Commodities**