Changing Caribbean Energy Geo-Politics
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at TRINIDAD AND TOBAGO ENERGY CONFERENCE 2015
Powering Development and Ensuring Stability
0n 26 January 2015
at the Hyatt Regency Hotel

Commodity prices have never been free of the influence of politics; and of none more so than oil.

But, the world has now entered a phase where politics play a quite different role in the price of oil than it has played previously.

This situation has led to volatility and unpredictability in the prices of oil and gas.

There are currently as many views on how long the present lower price of oil will last as there are experts who are asked to venture an opinion.

The only single certainty seems to be that, in the short-term, the price of oil will not return to figures of US$100 a barrel or more.

The world – and in the context of this Conference – the Caribbean now enjoys a respite from high costs of petroleum products.

It may not last long.

The United States Energy Information Administration forecasts that West Texas Intermediate crude oil prices will average around US$55 per barrel in 2015 and US$ 71 per barrel in 2016.

So, there is a small window of opportunity.

Throughout the Caribbean, there is now significant interest in the adoption and use of clean energy, renewable energy, and energy efficiency technologies.

What is more, almost every Caribbean country has vast renewable energy resources with only 1% of the existing potential harnessed.[i]

Therein lies opportunities for better energy security for the region, but not before many challenges are overcome, principally access to capital on affordable terms.

Factors impacting price on the International Stage

On the international stage, it seems that two factors have impacted the current oil and gas scenario.

The first is economic and the other political.

On the economic point, in October last year, the Organization of the Petroleum Exporting Countries (OPEC), led by Saudi Arabia and with the exception of Venezuela principally, decided not to increase the production of oil even in the face of declining revenues from falling prices.

This decision was confirmed at an OPEC meeting on November 27th.[ii]

Economic politics were at play.

The government of Saudi Arabia decided that, in its own interest, it wants to keep oil prices low so as to maintain its share of the global market.

Therefore, it led the argument in OPEC to hold production levels at 30 million barrels per day.

Simply stated the Saudi government feels threatened by the booming shale oil and gas sector being led by the US whose oil production has increased by 65% since 2008.

Authoritative studies say the US "shale production has reached 8.7 million barrels a day, about a million barrels a day more than just a year ago and the highest level in nearly a quarter century".

This has caused a significant reduction in imports from OPEC since 2008, forcing many of their members to compete with one another for markets.

In deciding to keep prices low, the Saudi calculation appears to be that if returns from oil sales decline, the fracking companies in the US (that produce shale oil and gas) will be pushed into uneconomic situations forcing them either to cut back or suspend production.

Should this gambit work, conventional oil producers such as Saudi Arabia would continue to receive significant revenues over a longer period of time, and they would retain the reins of oil's power.

How this will work out in the future is anybody's guess.

But not all OPEC members are happy.

Particularly unhappy is Venezuela, which according to the IMF, needs oil prices at about US$115 a barrel to keep its economy afloat, pay back its considerable debt and maintain an expensive social welfare programme.

The Venezuelans put that figure much lower, claiming that "the current budget was estimated with the cost of a barrel of oil at US$60".[iii]

But they admit that the revenue earned above US$60 a barrel "supports the activities outside of the budget framework".[iv]

Last week Brent crude oil dropped to $48 a barrel, and US crude fell to $47 a barrel.

At US$40 a barrel and below, the Venezuelans know that meeting all their obligations, including servicing their debts, is extremely difficult and can only be addressed by massive cuts in spending.

In all this China is a wild card.

However, it is uncertain how much of a wild card China can afford to be since it is now owed US$50 billion by Venezuela and the recent announcement in Caracas that it has agreed to lend another US$20 billion has not yet been confirmed.[v]

I will return to Venezuela's situation in the context of implications for the Caribbean later.

The International Political imperatives

For now, I draw attention to the political aspects of the price for oil and gas.

The countries of the West and NATO - even though at least two of them, the United Kingdom and Canada, are suffering setbacks to their economies because their own oil and gas earnings have declined - are relieved by the effect on two adversaries: Russia and Iran.

To balance its budget, the Russian government should be selling oil at US$98 a barrel this year and US$105 next year.

Apart from the dent in the Russian budget and its effect on domestic programmes, the fall in revenue from lower oil prices will also force the country's leader, Vladimir Putin, to make a choice between spending on domestic projects or involvement in theatres of conflict with the West such as Ukraine.

In the case of Iran, declining oil revenues will, the West believes, constrain its activities, including its efforts to develop a nuclear capacity for peaceful or any other purposes.

Undoubtedly, the weakening of the Russian and Iranian economies are unspoken imperatives of the foreign policy ambitions of many countries in the West, particularly the United States which now finds itself in a powerfully influential position in oil and gas production.

The world would be foolhardy not to expect the US to take full advantage of the enormous political, economic and strategic leverage of its current position to reassert its weight if not its dominance.

All of this has implications for the Caribbean region.

Opportunities for the Caribbean

For many Caribbean countries – the exception being the host-state of this Conference, Trinidad and Tobago – the lower price of oil is a god-send that should ease the strain on their populations for transportation and electricity – and in the case of Guyana and Suriname particularly, facilitate resource development.

Lower oil prices should also help to boost tourism and manufacturing by bringing down costs and making products and services more competitive globally, provided that owners are sensible enough to share the windfall with their customers and not try to gobble-up the benefits only to their bottom line.

Further, if the benefitting Caribbean countries – both governments and private sector – take advantage of this period of lower cost oil, they should be investing in green technology such as solar, wind, hydro and geothermal sources, to be better placed to cope if and when oil prices rise again.

The production of solar and geothermal energy appear both possible and capable of attracting financing and there is evidence of this in St Vincent, St Lucia and Dominica.

Another aspect of future planning for the region should be the feasibility of converting electricity generating systems from diesel to natural gas which, in time, may prove to be more beneficial to Caribbean economies.

I lay down the marker, however, that in the current situation of lower oil prices, encouraging investment in – and securing capital for – the conversion of systems for natural gas, particularly in the OECS countries, may not be attractive to governments in the region that are already highly-indebted and cash-strapped.

Ironically, in past discussions of the persistent and debilitating effect of the prices of oil, gas and energy in the Caribbean, Trinidad and Tobago – as an oil and gas producer – has been the exception.

It also remains the exception in the current situation since, for while the economies of other regional countries will benefit from lower oil prices, Trinidad and Tobago is suffering a loss of revenues and, perforce, has had to curtail a number of development projects.

Reportedly, the government faces a budget deficit of approximately US$1.7 billion.

Nonetheless, a statement last week from the Trinidad and Tobago government that it is talking with the Inter-American Development Bank about "a Caribbean solution in which Trinidad and Tobago is the lead player in terms of the energy challenge and crisis"[vi] is encouraging.

The opportunity now exists for Trinidad and Tobago to take the lead in developing a **genuine pan-Caribbean owned project** for the creation and implementation of energy, based on natural gas, in which all Caribbean countries – governments and the private sectors – are owners and beneficiaries.

I recognise, however, that such an initiative will only be achieved by resolute and mature regionalism on the part of all countries.

Narrow political and nationalistic ambitions would have to be overcome – never an easy task, and, so far, not one that has been decorated with success in the region.

As the former Prime Minister of Barbados, Owen Arthur, pointed out in this capital just one week ago:

> "In a real sense, the region has come to this moment with the integration movement functioning virtually as the fifth wheel to a coach. It exists, but it is of very little practical value".[vii]

The United States geo-political interest

Even as we meet now, the US government is holding a one-day *Caribbean Energy Security Summit* in Washington with Caribbean leaders and US Vice President Joe Biden.

This meeting is being held as President Barack Obama boasted in his State of the Union address on 20 January that: "Today, America is number one in oil and gas. America is number one in wind power. Every three weeks, we bring online as much solar power as we did in all of 2008".[viii]

Additionally, two days later the US Energy Information Administration (EIA) reported that U.S. commercial crude inventories increased by a whopping 10.1 million barrels, maintaining a total commercial crude inventory of 397.9 million barrels.[ix]

The Caribbean leaders invited to the meeting are from the 14 independent member-states of the Caribbean Community (CARICOM) and the Dominican Republic.

As far as I am aware, there has been little – if any – joint regional preparation for this meeting, particularly as a "Draft Joint Statement" was not given to many Caribbean governments until last Wednesday, January 21st.

If anything, leaders might have met in Washington on the eve of today's meeting, but in the absence of knowing precisely what the US is asking them to commit to, and any expert study of the proposals, it is difficult to see what meaningful or cohesive response the Caribbean leaders will have.

I expect the Joint Statement, pre-drafted by US officials, will be issued at the end of the meeting later today.

Hopefully, Caribbean governments will take a strong hand in amending the US draft to reflect their own concerns and priorities.

We will all have to await its issuance and careful study before any understanding of what the US has in mind, and how inclusive a process with the Caribbean it intends.

For the US – with the Venezuelan economy reeling, and the future of its signature Caribbean project, Petro Caribe, apparently on shaky ground – this is a good psychological and strategic moment at which to proffer an energy initiative.

If the US is sincerely interested in the region's development, it should set aside a committed and declared amount of money for the implementation in the region of projects that would install renewable energy plants and help to convert electricity generating and distribution systems to natural gas on highly concessionary terms.

It should be noted, at this juncture, that with oil prices as relatively low as they are, investment in natural gas on a national basis will make little financial sense for the small countries of the Caribbean, namely the member states of the Organisation of Eastern Caribbean States (OECS) – the magnitude of their individual consumption would not be sufficient to amortise the capital investment, unless the technology for doing so improves and becomes less expensive.

Concessionary financing and grants would, therefore, be essential for them.

If these are not the elements of the initiative the US intend from today's Washington Energy Summit, the Caribbean will be very disappointed, and little will change.

Venezuela and Petro Caribe

This brings me then to Venezuela and Petro Caribe.

Suggestions that Petro Caribe might collapse find strength in reports, that Venezuela is selling debt owed to it by the Dominican Republic to Goldman Sachs for 41 percent of its value in exchange for a lump-sum payment, and is pursuing plans to do the same with oil debt owed by Jamaica.

But, even in the current terms of Petro Caribe where countries pay 60% of the world price of petroleum products to PDVSA and retain 40% as a long term loan (23 years) at 1% interest, the scheme remains attractive.

Petro Caribe was a crucial life-line for the participating Caribbean countries, and it remains so today.

It should be recalled that supplies of petroleum products under Petro Caribe amount to about 5% of Venezuela's total production which it is not giving away. PDVSA is receiving part payment in cash, and repayments of the loan component.

As for the Caribbean recipient countries, while, with prices of petroleum products below US$80, the equation has changed requiring them to make a 60% a cash payment whereas before it was 40% (when the price was between US$80 and US$100), the fact that the prices have declined also means that the sum of the cash they pay is also reduced.

Moreover, the Venezuelan President and his Ministers of Energy and Foreign Affairs have indicated quite clearly that they have no intention of reneging on Petro Caribe, and the authorities have done nothing to indicate its demise.

But if prices reach the US$40 mark or below, I suspect Petro Caribe will be suspended however much the Nicolas Maduro government might like to maintain it in its own geo-political interest.

Conclusion

The Caribbean is therefore at an interesting juncture in energy terms.

Acting together the countries of the region can take advantage of low cost oil to diversify their energy sources, improve their energy security, reduce costs and make their economies more competitive in tourism and manufacturing.

But, to do so will require governments acting in concert and cohesion – not with beggar-thy-neighbour policies.

A number of countries are now looking at the Caribbean as a market and for financing including Abu Dhabi and Germany. These efforts should be co-ordinated in the region's interest.

While there is interest in energy in the Caribbean displayed by the World Bank, the Caribbean's experience in the administration and disbursement of funds is not encouraging.

But, the region – both governments and the private sector – have the advantage of the Caribbean Development Bank's commitment to Energy Security in its Strategic Plan 2015-19 and its capacity to act as a catalyst for concessional resources – money, therefore, could become available to reduce considerably the Caribbean's dependence on external energy suppliers.

The fullest participation of energy companies such as the ones represented here will be required.

Indeed, it may require you not to wait for government action but to put forward a regional plan to the governments in whose countries you operate.

It is an exceptional time, requiring exceptional planning and action.

You should seize the moment.

End Notes

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[i] Caribbean Development Bank, 264th Meeting of the Board of Directors in Barbados, December 11th 2014, Paper BD 98/14, "Draft Energy Sector Policy and Strategy", (Typescript)
[ii] OPEC 166th Meeting concludes, Statement by OPEC on November 27, 2014, http://www.opec.org/opec_web/en/press_room/2938.htm (accessed on 21 January 2015)
[iii] Personal interviews with Venezuela officials on 19 January 2015
[iv] Ibid
[v] Shannon Tiezzi,The Diplomat, "Will China save Venezuela", January 7, 2015 http://thediplomat.com/2015/01/will-china-save-venezuela/ (accessed on 21 January 2015)
[vi] Barbados Advocate, "Tewarie on falling oil prices: Gov't wants T&T to lead regional response", p.11, Wednesday, January 21, 2015
[vii] Owen Arthur, Guest Lecture at the Institute of International Relations, St Augustine Campus of the University of the West Indies, *Caribbean Regionalism in the Context of Economic Challenges",* January 19, 2015 (typescript)
[viii] US President Barack Obama, State of the Union Address, 20 January 2015, transcript in The Washington Post, http://www.washingtonpost.com/politics/transcript-state-of-the-union-address-2015-remarks-as-prepared-for-delivery/2015/01/20/fd803c4c-a0ef-11e4-b146-577832eafcb4_story.html?wpisrc=nl_politics&wpmm=1 (accessed 21 January 2015)
[ix] Paul Ausick**,** *Crude Oil Inventory Soars by 10 Million Barrels,* http://247wallst.com/energy-economy/2015/01/22/crude-oil-inventory-soars-by-10-million-barrels/ (accessed 22 January 2015)

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