

Obama and Chávez: Energy Partners?

Written by Daniel P. Erikson & Paul J. Wander
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All eyes were on President Barack Obama when he travelled to Trinidad and Tobago to attend the fifth Summit of the Americas, the periodic gathering of the 34 democratically-elected Heads of State in the Western hemisphere that includes the United States, Canada, and every country in Latin America and the Caribbean except Cuba. While much of the attention focused on the global economic crisis and differences between the United States and its neighbors over the Cuban embargo, perhaps the most heavily scrutinized bilateral exchange at the summit, was the interaction between President Obama and Venezuelan President Hugo Chavez. Indeed when the two leaders shook hands and engaged in small talk it became the leading news of the summit. To Obama's evident bemusement Chavez even handed the US President a copy of the "The Open Veins of Latin America," a classic text on the region's exploitation at the hands of imperial powers by the leftist intellectual Eduardo Galeano.

Despite the friendly gestures, however, there is little doubt that Chavez, a firebrand populist who was first elected in 1998, has evolved over the last decade to become the most vocal and active opponent of US power in Latin America, eclipsing even the ailing Cuban leader Fidel Castro. During the eight years of the Bush administration, US-Venezuelan ties plunged to a series of new lows, driven partly by ham-handed US reactions to political developments in Venezuela, and partly by Chávez's increasingly full-throated embrace of an alternately virulent and taunting anti-American discourse that left the United States dithering over whether it was best to confront or ignore the Chávez phenomenon. By the end of Bush's term in office, US-Venezuelan diplomacy had veered into total breakdown, as both countries withdrew their respective ambassadors and cut off most formal communication. Given that Venezuela remains one of the largest providers of oil to the United States, diplomatic discomfort between Washington and Caracas is often coupled with concerns about the impact on US energy security.

While Latin America was hardly the most pressing foreign policy concern debated during the US presidential campaign, the case of Venezuela was unique in that it tapped into two broader themes repeatedly debated by Obama and his Republican opponent John McCain. The first was whether America should engage directly with its adversaries, an approach that was advocated by Obama and denounced by McCain. Indeed, Hugo Chávez was repeatedly invoked as an example of the type of foreign adversary at the center of this debate, along with the leaders of Iran, North Korea, Syria, and Cuba. The second theme focused on the need for the United States to wean itself off foreign oil from potentially unfriendly states in a quest for energy independence. In this case, Venezuela often joined Russia and Saudi Arabia as representing the kind of authoritarian petro-state whose oil the United States should seek to do without. Unlike the question of political dialogue with America's antagonists, however, the call for energy independence struck a chord with both political parties.

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Indeed, if one accepts the premise that US energy security is compromised by over-reliance on unfriendly vendors, then Venezuela presents ample cause for concern. The US economy responds quickly and negatively to shocks to oil supply, and Venezuela is a potential source for such shocks. During a Venezuelan oil workers strike in the winter of 2002-2003, for example, Venezuelan output of heavy, sweet crude oil slowed dramatically from a pre-strike production of 2.8 million barrels per day, which helped drive a 24% spike in US gas prices during the 10-weeks of the strike. In today's terms, the \$1.67 per gallon peak reached in March 2003 represents nothing but a slight bump on the path to \$4 dollar per gallon gasoline in the summer of 2008, nonetheless, the sudden shock showed the depth at which the US and Venezuela are linked, at times more by convenience than by choice, in their oil-based trade relationship.

As the largest consumer of oil in the world, the United States is heavily dependent on Venezuela, its fourth largest supplier after Canada, Saudi Arabia, and Mexico. In 2008, the US imported an average of about 11 million barrels of crude oil and related products per day, and Venezuela accounted for 1.13 million barrels per day, or just over 10 percent of those imports. While overall production has recently sagged, Venezuela will remain an important supplier to the United States as long as it has the largest oil reserves in South America. In 2009 a reported 99 billion barrels of oil remained untapped. By comparison the US proven oil reserves were estimated at just over 20 billion barrels in 2008.

Venezuela is a key piece of the US energy matrix not only because of its significant share of the US market and demonstrable stocks of oil and other resources, but also because of its close proximity to the United States. Oil from Venezuela enters the United States via tankers that traverse the Caribbean in about 5 days. By contrast, tankers from the Middle East and Africa can take between 20 days, if in the Atlantic basin, or over 40, if passing around the Cape of Good Hope. Companies using shorter trade routes minimize costs, and further benefit from clustering and specialization of certain elements of the value added chain on those routes. For example, refineries in Venezuela, Mexico, the United States, and the Caribbean are set up to deal specifically with the type of oil found in the Caribbean basin, often high-sulfur crude, and are well integrated with US companies or their subsidiaries. A sudden disruption of this well-established and localized trade route is unlikely.

The powerful economic logic of the US-Venezuelan oil trade has proceeded virtually without disruption even during the most intense periods of confrontation between the two countries, beginning when the US State Department appeared to endorse the overthrow of President Hugo Chávez in 2002, when the Venezuelan leader was ousted from office for two days before regaining power. High profile bouts of name-calling followed. During her Senate confirmation hearing in 2005, Secretary of State Condoleezza Rice characterized Venezuela as a "negative force" in the region but later former Secretary of Defense Donald Rumsfeld raised the timbre of the criticism, warning that Adolf Hitler, like Chávez, was a popularly elected leader. During a

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speech at the United Nations in New York in 2006, Chávez famously denounced President Bush as “the devil,” and complained that the podium still smelled of sulfur. Just before the end of President Bush’s second term, relations hit bottom when Chávez expelled the US ambassador from Caracas, describing it as an act of solidarity with the Bolivian government, which had done the same.

While it is too soon to render a verdict on how the Obama administration will shape its approach towards Venezuela, it is evident that the deeper structural tensions in the relationship have persevered beyond the Bush administration. While Chávez initially welcomed Obama’s election, the new US president, and members of his administration, have had difficulty avoiding the reflexive criticism of Chávez that has become deeply ingrained in Washington’s discourse on Latin America. Obama has described Chávez as a “force that has interrupted progress in the region,” which prompted the pugnacious Venezuelan leader to call the new president “an ignoramus” with little sense of Latin America. At the Summit of the Americas Obama’s striking popularity in Latin America on the whole appeared to blunt Chavez’s criticisms and he called the US President intelligent and told him, “I want to be your friend.” Despite these warm words it remains likely that Chávez will continue his rhetorical assault on the Office of the President because of the domestic political pay-offs from his anti-imperialist stance. In any event, Chávez’s current presidential term will extend through Obama’s first term in office, and it is quite possible that Chávez will remain a feature of the regional landscape well into the future. Staying power is one thing that Chavez does not appear to lack. Elected in 1998 with overwhelming popular support, Hugo Chávez has since been re-elected under a new constitution in 2000, survived a short-lived coup in 2002, triumphed in a referendum on his rule in 2004, gained election to a second term in 2006, and bounced back from a December 2007 referendum defeat to pass a similar referendum allowing for his indefinite re-election in 2009. During his time in office, Chávez has consolidated his control over most major institutions of government, and domestic opposition to his regime remains splintered. Barring complete economic collapse, he seems well-positioned to retain power until the end of his term in 2013. Chavez will turn 55 in July, and he does not appear to be preparing for his retirement anytime soon.

US officials have expressed concern with the condition of Venezuelan democracy and surely disapprove of Chávez’s penchant for name-calling, but another reason for preoccupation with the Venezuelan leader is his openly stated policy to use Venezuela’s resources and influence to undermine the United States both regionally and globally. For example, to Washington’s chagrin, Chavez has become a major benefactor of Cuba and through an “oil-for-doctors” swap whereby Venezuela ships 100,000 barrels of oil per day to Havana in exchange for thousands of Cuban doctors working in poor Venezuelan barrios. In December 2007, Chávez collaborated with the Cuban government to re-open the oil refinery at Cienfuegos, which currently processes 72,000 barrels of oil per day. Working with Cuba, Venezuela has spearheaded a regional social and investment pact known as the Bolivarian Alternative for Latin America, or ALBA, a rejoinder to the US-sponsored Free Trade Area of the Americas. Bolivia has now joined ALBA, led by its

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president, Evo Morales, who was elected in 2005, following a campaign critical of US influence in the region. Morales' subsequent decision to nationalize Bolivia's vast gas reserves is thought to have been mentored by Chávez.

Venezuela's ties to Iran have provoked even greater unease among US policymakers although Iran by far is the larger foreign policy concern. Iranian president Mahmoud Ahmadinejad and Chávez have often coordinated on oil, nuclear issues, and frequently join forces to launch verbal assaults on the United States and other Western powers. The two leaders have also led efforts to cut oil supply within the 13-member Organization of Petroleum Exporting Countries (OPEC), which supplies one-third of the world's oil. Venezuela's support of Iran has extended to publicly defending Iran's nuclear energy program with an expressed interest in collaborating on nuclear technology. On a visit to Caracas in 2007, Iranian president Mahmoud Ahmadinejad unveiled, with Chávez, a proposed \$2 billion fund to counter US influence in developing countries. In April 2009, Chávez visited Iran for the seventh time, where he signed agreements to launch the Iran-Venezuela joint bank, which will fund development projects in each country through its \$200 million capital base.

As China has evolved into a major destination for commodity exports from Latin America, Chavez has overtly sought to divert its oil trade away from the United States and towards China. The Chinese, for their part, have been reluctant to get embroiled in the bilateral feud between the United States and Venezuela, for fear of setting off alarm bells in Washington. But at the same time, China has been steadily ramping up its investments in Venezuela and working to expand the oil trade. Venezuelans look to China as a crucial market for its key commodity export. This February, Chávez confirmed his country's commitment to Beijing, saying, "All the oil China needs for the next 200 years, it's here. It's in Venezuela." PDVSA has maintained a representative office in China since 2005 and imports of Venezuelan oil are going up: Venezuela sold 380,000 barrels per day of petroleum and petroleum derivatives to China in 2008, and on his recent visit to China, Chávez announced plans to increase total exports to China to 1 million barrels by 2013. In pursuit of that goal Caracas is building up its oil shipping fleet for sales to Asian countries. China is also moving to improve its ability to use and refine Venezuela's sour oil. The nation's refineries have begun blending sour with lighter sweet crude produced domestically to make a refinable hybrid. China has also steadily increased its ability to process straight sour oil. China plans to add between 400,000 and 500,000 barrels per day in refining capacity annually up to 2010, with a significant portion of this targeted toward heavy and sour crude. Recently, in his sixth visit to China since 1998, Chávez travelled to Beijing where he and Chinese officials unveiled plans for a \$8 billion refinery in Guangdong province. Perhaps more importantly, China has allowed Venezuela to take out loans for oil credits, providing vital capital in a time when liquidity is in short supply. These moves have aggravated suspicions among some observers that Venezuela may be conspiring to replace US demand for oil with the Chinese market thereby dealing a body blow to an American economy already anxious about energy security.

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Still, during the Obama administration the United States is likely to remain a critical supplier of cash to PDVSA and the Venezuelan government. In 2008, Venezuela exported \$59 billion worth of oil, an amount equal to 16 percent of their GDP in that year. The United States spent about \$40 billion dollars on Venezuelan oil in 2008, meaning about 70 percent of the Venezuelan oil sector is dependent on the US market. In January 2009, Venezuelan oil sales to the United States actually increased by 14 percent over the previous month, reaching nearly 1.2 million barrels of oil per day. Like other Latin American countries that experienced strong growth in the last decade, Venezuela is suffering from a collapse of commodity prices and may face budget shortfalls if oil prices remain low. Setting aside Hugo Chávez's desires to hold American "imperialists" hostage to his oil reserves, under current conditions any disruption of oil exports to the United States would devastate the Venezuelan economy and perhaps pose a mortal threat to Chávez's regime. In March 2009 Chávez cut his government's budget by 6.7 percent, explaining that previous budget had assumed an average oil price of \$60 per barrel, and that the revised budget would reflect oil prices closer to \$40. Many of the social provisions that have made Chávez popular depend on oil revenues, but he has promised not to cut such programs. Instead, his government will rely on tax increases and debt.

In the meantime, the US and Venezuela will remain embroiled in an unfriendly but effective partnership based on strong northward trade flows of oil and other resources and southward flows of hard currency in the short term. While both sides have complained that the other is not the ideal trading partner, pragmatism trumped political rhetoric during the Bush administration, and Obama is unlikely to be much different in this regard. Still, competition for Latin America's energy supplies will undoubtedly intensify at a time when many nations are seeking to exercise greater control over their oil and gas reserves. US policymakers need to be vigilant and proactive. The long-term outlook for US energy security will improve if they can fashion a compelling response to the new dynamic created by America's falling economic power and Latin America's resurgent nationalism. As with all previous US and Venezuelan administrations before them, Obama and Chavez are fated to be energy partners, and nothing that occurred at the Summit of the Americas has changed that inconvenient fact.

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